Economic Conditions
Governmental Finance
United States Securities

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NEW YORK, JANUARY, 1920.

General Business Conditions.

THE industrial and trade situation at the close of 1919, judged by the movement of merchandise, pressure for goods, readiness to pay high prices, and amount of business in sight for the future, was most promising. The holiday trade and the general trade in preceding months were on the greatest scale ever experienced.

An inquiry as to the business outlook addressed at this time to almost any line of industry will elicit a favorable, even sanguine, response. Each group of producers seems to be confronted by an accumulated demand which gives assurance of plenty of business for a long time to come.

For example, the building trades and industries are convinced that the greatest year in their history is now in sight, and the building industry in all its ramifications is so extensive that full activity in it is a very important factor in general employment and prosperity. The iron and steel industry can see nothing but prosperity ahead for the coming year. A vast amount of work needs to be done upon the railroads, and if they are returned to their owners upon terms which enable the latter to raise money from the investing public, no doubt the expenditures will be made as rapidly as it is practicable to obtain the funds. Industry today is hampered in all parts of the country by poor railroad facilities.

The industries engaged in supplying goods for current consumption see nothing but prosperity ahead because the demand at present is in excess of their ability to produce and they see no likelihood of an early change in the situation.

Certainly it is a definite and most encouraging accomplishment that during the past year the armies have been demobilized and distributed back into the industries, that the shift has been made from war work to peace work without any considerable amount of unemployment, and that a complete recovery has been made from the state of doubt and hesitation which existed last January.

Foreign Trade Situation.

Over and against these favorable features there are certain elements of instability of such importance that they should be kept constantly in view.

One of these is the foreign trade situation. For the first eleven months of 1919 our exports aggregated $7,242,045,000 and our imports $3,528,132,000, as compared with $2,250,929,000 and $1,608,829,000 respectively in 1913. The rise of prices is a large factor in the increase of both exports and imports, but the trade balance is a real balance to be settled.

This is the fifth year of abnormal trade, and the balances in favor of the United States during the period have aggregated about $14,500,000,000. In the first two years the balances were met by foreign selling of American securities, by loans in this market and by sending us about $1,250,000,000 of gold. After our entrance into the war it was done mainly by the loans of the United States Government to the governments associated with it in the war, aggregating nearly $10,000,000,000. The amount of these loans made in 1919 was $1,757,989,481. The remainder of the balance of the past year has been met by numerous loans in the public market, by private credits and by exchange purchased by speculators.

Unbalanced Trade Cannot Continue.

This unbalanced state of trade cannot be long maintained now that government loans have ceased. It is true that this warning has been sounded continually during the past year, and exports on the whole have not declined. But the fact that credits to so great an extent have been provided at private hands is not an assurance that they can be handled to the same extent and in the same manner in the future. The individual exporters who have been granting credit become less able to do so as their resources are gradually tied up abroad.

Our exports have been a large factor in our industrial activity during the last five years, both directly and indirectly. Our manufacturing industries would feel the effect of a cessation of the foreign demand for their products, but more serious to them would be a falling-off in the purchasing power of the agricultural districts of this country. The great domestic trade is in large degree sustained by the prosperity of the farming sections, and this prosperity results from the large exports of farm products and the prices

which are made by the foreign demand. In some of these products a decline of exports and of prices has occurred, and serves to illustrate what may take place on a larger scale. In the five months, March, April, May, June and July the exports of meat and dairy products averaged $129,000,000 per month, in August they fell to $81,000,000, and in the months of September, October and November they averaged $64,000,000 per month. The figures for the different classes of products thus grouped together are not available for all of these months, but the chief factor in the group is pork products, and the price of live hogs in Chicago has declined from $23 per hundred weight in July to $14.

Although it is often said that the United States might live in independence of the rest of the world there would have to be an extensive readjustment of the industries to make them mutually supporting. We always have been largely dependent upon foreign markets and there could not be a general suspension of exports without a congestion of products in the home market and resulting disturbance of all industries. The effect of an interruption of exports in the latter part of 1914 is not forgotten.

There is a prevalent idea that a decline of exports would be beneficial because it would reduce prices to consumers in the home market, but that is a short-sighted view at this time. The high prices are the result of world scarcity and the only real cure for them is in getting industry going again everywhere. It would aggravate the situation to have industry disorganized and labor thrown out of employment in this country. We do not want low prices as the result of congestion here while people die of want in Europe, and it will be a grave mistake to think that we can enjoy prosperity in such a disordered world.

Although the outlook is unfavorable to a maintenance of exports in the present volume, it does not seem probable that they are going to suddenly stop. It is more likely that as exchange rates decline foreign purchases will be gradually reduced and the interest of this country in the situation will be awakened to the point of doing something. If the importance of getting Europe back to a self-supporting basis is fully appreciated we will find ourselves abundantly able to do it. We would have found the way to carry on the war for years longer if it had been necessary. The support and reconstruction of world society, and the re-establishment of industry upon a peace basis is just as important as winning the war. The difference to the people of this country between good times and bad times would supply all that is necessary to carry Europe through to safety.

The dependence of the European countries upon the United States for food cannot be lessened until another crop is grown, and it cannot be expected that the 1920 crop will be a full one. Fertilizers will be available and labor should be in abundant supply, but there is a shortage of animals and of implements, and it is not yet probable that the pre-war supplies from Russia will be forthcoming.

Assuming that order is preserved in Europe this winter, by the help of supplies of food and such materials as are necessary to the employment of the people, production will be gradually resumed, the demands upon the United States will take the form of regular trade, and prices there and here will be readjusted to a normal basis. The present exchange rates will stimulate exports from Europe to this country as soon as goods are available for shipment, and will certainly have an effect upon prices and industrial conditions here. Such raw materials as cotton and copper will be taken from us in larger quantities than now, but the products of Europe will be competing with us in all markets, including our own. A turn of prices downward will come as Europe begins to take less from us and to export in increasing quantities to all markets, including our own. Our business men and leaders of industry among both employers and labor leaders should be prepared to adjust their policies to the new conditions as they develop.

The Expansion of Credit.

The state of bank credit is another factor in the situation which must be taken into account in planning for the future.

The inflated state of bank credit and the inflated state of wages and prices today are the result of supplying credit without stint at a time when there were practically unlimited demands upon the industries. The new powers of the Federal Reserve system provided the facilities for expansion, and they were freely used during the war and during last year. It is easy to settle wage controversies so long as increased costs can be added to the price of the product, and this has been the policy. Each increase, while quieting demands for the moment in one quarter has become the basis for new demands elsewhere, and as soon as one round was completed another was begun, with all the old arguments repeated. Every time the price level is raised more credit and more currency are required, and so inflation has gone on.

Evidently this movement could not go on indefinitely. The Federal Reserve Board has given warning that in the interest of security and stability to industry the expansion of credit must be checked. The gold holdings of the Reserve Banks are no longer increasing but declining. The warning is not threatening; no drastic policy of contraction is proposed; but the country is told that it should pay up the bank loans which are secured by government paper, and do business within the facilities supplied by the present volume of credit.

Effects of Credit Restrictions.

It is well to understand what this means. It means that if the country is to handle the same volume of commodities in 1920 as in 1919 it must

be done at no higher level of prices. If prices are to be pushed up by higher wages, higher prices for coal, higher railway charges, etc., there will have to be curtailment somewhere of the amount of business done, so that the total volume will be within the credit facilities of the banking system. If the volume of exchanges increases it must be handled with a correspondingly smaller proportion of credit, or at a lower level of prices.

The policy will be to make credit cost more, to exercise a more stringent surpervision over the uses to which it is put, and to hold a close rein over business expansion everywhere. In the present state of scarcity in many lines of goods, the competition for materials and labor is almost as keen as during the war, and the effect upon prices of granting credit freely is similar to what it was then. In such cases a restriction of credit will tend to reduce the competition and lower prices. A restriction of credit used for carrying stocks will also tend to force goods on the market and lower prices.

On the other hand there is danger that restriction, unless wisely directed, will tend to curtail production, which would be very undesirable. The chief influence for accomplishing deflation must be increased production. As the price level comes down the credit set free should be permanently retired, at least to the extent of clearing the Federal Reserve Banks.

The Need of Capital.

It will be seen in surveying the situation that confidence is based upon the vast amount of work which looms up in all fields as needing to be done, and upon the great demand for goods for consumption. There is no question about the wants of the world; they are very great and urgent. Indeed, the world is impatient to a degree which tends to defeat the satisfaction of its wants. Its wants are both positive and negative, for it wants more of everything and at the same time to work shorter hours. It wants to curb the accumulation of capital, and yet a greater supply of comforts can be had only by an increased accumulation of capital. The chief agency for supplying the wants of the world is machinery, and capital consists entirely of productive instrumentalities.

There is always a vast amount of work to be done, providing somebody will furnish the capital for doing it. If one could have a sort of a bird's-eye view of all the plans that are developing or waiting in the minds of men for the improvement of industry and society, what a wonderful picture it would be! The building program for which the architects are said to have the plans ready, will require a great amount of capital, probably twice as much in terms of dollars, as the same amount of building would have required before the war. The construction work which the steel industry is counting upon, the new electrical installations upon which estimates are invited, the expenditures upon the railways, etc., all involve demands upon the capital fund, correspondingly larger measured in dollars, than the same work would have required before the war.

Where is the capital coming from to pay for all this work? Society accomplishes its progress by saving up out of current production the means of making additions and improvements upon its productive properties. If its industrial equipment is to be improved and the plant enlarged by extensive construction work, somebody must come forward with ready capital and advance the pay for all the workmen so employed. In short, the capitalist, large or small, and his capital, are vital factors in this great construction program. There is an inclination to question whether a capitalist serves any useful purpose, and we invite attention to the part he is expected to play.

State of the Investment Market.

The situation in the investment market does not indicate that large amounts of capital are available for investment at this time. Bonds and stocks which in the past have been considered choice investments are selling at the lowest prices in their history. If capital is not available to purchase these where and on what terms will it be found for investment in the new facilities which are so much needed?

It must be remembered in the first place that the income from a great body of old investments, such as railroads and public utilities, even if maintained at the same rates, has only about one-half the former capital value for new construction. The public is not disturbed about the shrinkage in the income of a capitalist; a suggestion that in valuing the railroads as a basis for rate-making, consideration shall be given to present costs of reproduction, is likely to have small consideration; objections are heard even to allowing the railroads to increase their charges sufficiently to permit the maintenance of present interest and dividend payments; but the public cannot escape its own loss resulting from diminished capital in the hands of investors. Of course it may be said that what is taken from the capitalists is distributed to the public, but even so it will be necessary to go to the public in search of new investors, and will they be found?

Then again it must be remembered that a large part of the income from business and investments is being taken for taxation, and is not available for financing new work. The state of the security markets reflects this fact.

The need for capital to provide credits to enable Europe to make purchases here has been emphasized, but such offerings come into competition with the other demands, and the state of the investment market is the most discouraging fact which the advocates of foreign credits have to meet.

The Supply of Capital.

The supply of capital depends first upon production and then upon saving. The savings which become capital may be accumulated from wages and other small incomes or from the profits of larger business. The essential thing is that something be saved from direct consumption and used to increase production permanently. Whatever is so applied is diverted from personal use and devoted to a public purpose.

Small savings when invested directly by the owners go largely into homes or real estate mortgages, but when placed as bank deposits or in the purchase of life insurance have been largely invested in railroad bonds. Industrial development in each line has been mainly accomplished by means of the profits made in that line. The steel industry has been developed and the wonderful progress of the last fifty years accomplished by means of the profits obtained in the business. The savings resulting from one improvement have furnished the capital for other experiments and improvements. The great fortunes made in the industry have consisted of vast properties by means of which iron and steel are made and sold to the public more cheaply than before such properties existed.

The fact that private fortunes exist in the form of properties which are producing for the public market, that the profits for the most part are turned back for the purpose of increasing production, and that the gains from the improvements in industry inure to the consumers of the products, are facts commonly overlooked. But such is the history of social progress. In this manner occurs the diffusion of benefits which has always accompanied industrial progress. There is no outlet for capital accumulated in industry except in providing for greater production, and no outlet of any consequence for increased production except by distribution to the public. The genius of the business world is divided between the tasks of production and distribution.

The Limiting Factor in Production.

We see in every line of industry the eagerness to produce. The demand for things is in sight; there is need on every hand to increase and improve the productive equipment and enlarge the output, but capital is lacking. We are not saving enough from current production. Not enough of our working force is employed in making provision for increased production in the future.

If profits are unusually high in any line of production it is usually a sign that more capital—more productive equipment—is needed in that industry, and the profits will supply it. The larger the profits the faster will be the development of the industry in which they are made, until the point is reached where the public is abundantly supplied at a profit so moderate that investment turns into other channels. The most effective protection of the public from high profits is in the fact that such profits are their own undoing. They work a permanent change in the conditions from which they spring, and no attempt to regulate profits arbitrarily can do this.

There is criticism of landlords who raise rents under present conditions, but the only real remedy for the scarcity of house-room is more houses, and they will not be built unless there is remuneration for the investment.

Hostility to Profits.

The public is hostile to profits because it does not follow them back into industrial use and see the results in larger and cheaper production. Profits are regarded grudgingly, as lost to the public, and at best as an incentive which it is necessary to concede. But profits are more than an incentive; they are the means by which the leaders in industry accomplish their achievements.

The public is always wanting profits reduced and wages increased, although profits are much more likely to be converted into capital and used for industrial advancement than wages. If profits the country over were cut in two and one-half disbursed as wages, undoubtedly the effect would be to diminish the amount of capital available for construction work and increase the expenditures for current consumption. It would raise the cost of living still higher while curtailing the means for increasing production.

It is no reflection upon the wage-earners to say this, for it would be the inevitable result of a larger direct distribution. The increased amount received by each individual would be so small that the chances would be against its becoming productive capital. The $100,000,000 gift recently made by Mr. Rockefeller to education and medical research may be expected to produce far-reaching results for the good of humanity, but distributed to all the people of the United States it would have amounted to less than $1 each.

This is not saying that it is an ideal situation to have wealth concentrated instead of widely distributed. It is only saying that wealth must be produced before its benefits can be enjoyed by anybody, and that arbitrary efforts at distribution will curtail production, while wealth used productively, even though the ownership be concentrated, will increase the distribution of products.

The Labor Problem.

The labor problem is how to convince the laborer that the fundamental thing is an increase of production. It is utterly futile to try to improve the condition of the masses by raising money-wages, while the supply of everything they want to buy is being reduced. If all wages in the world were doubled forthwith the act would not add one bushel of wheat, one pound of sugar or one yard of cloth to the supply. It is true that if a few get more wages while the others do not, the former may be able to get more than their share by outbidding the

others, but there is no settlement of the social problem in that. The fundamental truth is that industry as a whole, including all occupations, is engaged in supplying the wants of the population, that the greater the production in each branch of industry the more that branch will have to give for the products of the other branches, and the greater will be the supply for all.

This principle is generally conceded in the abstract by labor leaders, but little evidence of it appears in their policies. The Bureau of Census, reporting upon the quantity of cotton manufactured into goods in the United States during the month of November, 1919, brought out the fact that with an increase of about five per cent in machinery in use and an even larger increase of employes on the pay rolls, the consumption of raw cotton was less by 90,000 bales, or nearly 16 per cent than in November, 1916. This result is mainly due to the shortening of the work-day from 54 to 48 hours. It may be added that wage increases of 15 per cent in June and 12½ per cent on December 1st were granted in 1919, in addition to the grant of 54 hours' pay for 48 hours' work, earlier in the year.

Consumption of the Rich Insignificant.

Cotton cloth is an article of common use. The percentage of the production which is consumed by rich people is insignificant. The working people of the world, of the same type as the employes of cotton mills, are the great consumers of cotton goods. The curtailment of production is more serious than the increase of cost involved in higher wages, because there are not enough goods to go around, and a competition is created which carries prices beyond the reach of the poorer class of consumers. The most helpless people suffer the results. As a measure of relief to the working people of the world, the cotton mills ought to be running at least as many hours as they did before the war.

The strike in the steel industry has cut down the supply of a material required in the manufacture of machinery and industrial equipment of every kind, and the strike of coal miners was a blow to industry not only in this country but in Europe. Thousands of factories whose products are needed for the comfort of the population and for the rehabilitation of industry in Europe were forced to suspend for want of coal.

It is unnecessary to refer to other strikes and controversies to show that industry was greatly hampered and production reduced during the critical year just past. It is easy to see that if the idea of securing the largest possible production prevailed generally the output of everything wanted for human comfort would be greatly increased.

The reason for this indifference of labor toward production undoubtedly is that antagonism toward the employing class dominates its policies and obscures the relations of the workers to each other. The workers themselves are no more in the dark than the thousands of ill-informed sympathizers outside their ranks who write and talk in their behalf. Throughout all the complaints about the profits of employers and the exploitation of labor there is the assumption that all the profits of employers are, first, exacted from the public and second, used for the exclusive benefit of the owners. There is no recognition of the fact that unusual profits as a rule are obtained by economies in production which reduce the cost of goods or services to the public, and that the profits in large part become capital and are necessary to the expansion and improvement of industry.

The Interdependence of Capital, Labor and Production.

Capital is an indispensible factor in social progress, and ownership is a comparatively unimportant detail, except as it affects the efficiency in use. It is certain that when the owner is saving and investing it he is not consuming it himself, and certain that he cannot use it productively except by conferring public benefits. He cannot even invest it without employing labor, so that an exceptionally rapid accumulation of capital results in an exceptionally heavy demand for labor, which naturally produces a rise of wages. In other words, there is a normal and inevitable relationship between an increasing supply of capital, an increasing demand for labor, and an increasing supply of goods on the market. The goods produced for the market must be distributed back for consumption to the same body of people who produced them, working in the various industries. There is nobody else to buy them, and unless this distribution is accomplished there can be no profits in industry and no use for new supplies of capital. Industry would choke down and come to a standstill if the purchasing power of the great body of the people did not increase as fast as production increases. Industrial society would become stagnant and unprofitable to everybody.

This is the answer to apprehensions that capital will conspire to cut down wages and deprive the workers of the comforts of life. The individual employer may want to cut down the wages of his own employes, but he is not interested in having the purchasing power of the community generally reduced. That would be destructive of business and of capital and therefore no conspiracy to that end is possible. The truth is that the new capital coming on the market competes inevitably with old capital in the service of the public. New capital is continually exterminating old capital, which in the form of out-of-date equipment is discarded, the consuming public gaining by the latest methods and equipment.

During the war, when the demand for iron exceeded the capacity of all the furnaces, prices rose high enough to bring scores of abandoned furnaces back into temporary use, but as the demand subsides or the supply is increased by the construc-

tion of new furnaces, the old uneconomical furnaces will be forced by falling prices to close again.

Foreign Trade and Exchange.

The November foreign trade figures are larger than those for October on both sides of the account. Exports aggregated $740,921,163 and imports $429,211,077, giving a balance in favor of this country of $311,710,086. These are the second largest figures for monthly exports on record having been exceeded only in June, 1919. While the movement of meats and breadstuffs was lower, cotton went to England in increased quantities, notwithstanding the low rate of sterling exchange. Indeed it was doubtless an important factor in the new low record for sterling. The Lancashire cotton mills are now working to capacity and the product seems to be wanted at prices which include the exchange charges. Exports to Asia are large and all the products of Asia are bringing high prices.

The European exchanges have all made new low records during the past month, the pound sterling falling to about $3.64 on December 12, from which it reacted to above $3.80. Canadian exchange, upon which a year ago the discount was about two per cent, last spring about three per cent and a month ago four or five per cent, went as low as eleven per cent, probably as the result of realizing by American holders. A great many business houses in this country with a Canadian trade have been accumulating credits in Canada during the past year.

Current Exchange Rates.

The table of exchange rates as of December 29 is as follows:

	Unit Value	Ex. rate Nov. 28	Rate in cents 12/29/19	Depreciation in %
Canada	1.00	.9525	.9100	9.0
Germany	.2382	.0230	.0210	91.2
Italy	.1930	.0825	.0763	60.5
Belgium	.1930	.1075	.0962	50.2
France	.1930	.1026	.0939	51.3
England	4.8665	4.0300	3.8000	21.9
Switzerland	.1930	.1818	.1802	6.6
Holland	.4020	.3775	.3750	6.7
Denmark	.2680	.2030	.1925	28.2
Norway	.2680	.2180	.2050	23.5
Sweden	.2680	.2250	.2150	19.8
Spain	.1930	.1965	.1925	0.3
Argentine	.9648	.9825	.9800	*1.6
Japan	.4985	.5075	.5025	*0.8

*Premium.

There is a growing opinion that American exporters hold larger amounts of European credits than has been heretofore supposed, and this is an explanation not only for the fact that exports have been well maintained despite the decline in rates but for a good part of the increase of bank loans since September. Naturally a manufacturer who is selling abroad on long credit, or taking his pay in foreign securities, must call upon his banker for funds with which to carry on his business. That this was being done to some extent has been well understood, but the volume probably is larger than has been supposed.

As yet it cannot be said that there is any definite development from the conferences upon the subject of foreign credits. It is not likely that there will be any until the Treaty is disposed of. The proposal to raise any considerable sum from the investment market looks formidable in view of the state of that market as shown by the prevailing prices for our own securities. Advices from Europe are urgent that action be taken, and some writers say that much feeling is developing against America over the oppressive exchange rates, which the general public understands there no better than here. They think that prevailing rates, so unfavorable to them, are a part of the price which America is exacting in the hour of their great necessity.

Government Aid.

The Secretary of the Treasury in his annual report to Congress has taken very definitely the position that the Government will do nothing to assist in financing export business. He urges that as the profits upon exports will inure to the exporters, the latter should assume the burden of financing them. That may be logical, but will the farmers or exporters of farm products come forward and provide the credits for that class of exports? An extensive organization will be necessary to provide credits upon the scale required, and it will take an unusual degree of co-operation and public spirit to create such an organization.

It will be necessary to concentrate public attention upon the situation much more effectually than has been done as yet. The average man regards the exchange problem as something for bankers to look after, and takes it for granted that the needs of Europe for cotton, food, etc., are so imperative that "somehow" the exports will continue. The fact is, however, that they will not continue unless a way to pay for them is found. Credits must be provided to cover them, and the sum required is too large to be provided except by an organized appeal to the country, presenting the general interests involved. Every part of the country must participate. The agricultural interests are even more directly concerned than the other industries, but all are concerned together. The situation is so large that leadership and co-operation by the Government are required. As long ago as last May we said upon this subject:

> Private credit is unable to cope with this situation. The needs are on too vast a scale, and the people of this country are too far away to take a large part in it as individuals. We may ring the changes upon foreign investments and some will be made, but the total will be far below the sums needed. There is only one way in which the resources of Europe can be pledged in such manner as to promptly command credit upon a great scale, and that is through governmental agencies.

Meanwhile the situation is drifting closer to the stage where prompt action will be necessary.

Mr. Hoover makes the practical suggestion that if Congress will grant authority, the Grain Corporation will be able to extend the credits required for the purchase of foodstuffs out of funds already at its command, and without any additional appropriation. He takes a view which we believe will be generally approved by the American people when he says:

"I do not believe that we can, with such a surplus of breadstuffs in our hands, sit down in the United States and see millions of people starve merely because we exact cash instead of credit. Unless we take some immediate action in the matter we shall have a breakdown of stable government in Central Europe. If we look at it from the most selfish point of view of our own future interests we cannot expect to have peace and a recuperation of the world if we allow the creation of another cesspool like Russia. No section of this community, however, places selfish interest before humanity.

"The amount of assistance required is very small compared to the total that we extended last winter. Furthermore, transportation, government, and other things have become so much more neary normal in Europe that it does not require establishing any great system of distribution. The whole operation could be carried out by the chief grain corporation."

The Edge Law.

The Edge bill has become a law. The essential features of this act are that corporations having a capital of not less than $2,000,000 may be organized to engage in foreign banking operations, that they may sell debentures or other obligations up to ten times their capital and that national banks may subscribe to the stock of such corporations, provided that their total holdings in these and other corporations authorized to do banking abroad shall not exceed ten per cent of their capital and surplus. Doubtless there will be some action under this law, as the resources of the War Finance Corporation can be brought into play in this manner, not to speak of market flotations. These facilities, however, are more likely to be employed for the movement of manufactures, through the co-operation of the industries, than for the movement of farm products.

The Chamber of Deputies of Argentina, which is the lower house of Congress, on December 12 passed the bill granting a credit of $200.000.000 to Great Britain, France and Italy, and the bill is now pending before the Senate. The proposed credit is to enable the borrowing countries to buy Argentine products. Argentina is just now harvesting an excellent grain crop.

The Money Market.

The money market was close in New York throughout December, reflecting a strong demand for funds for the year-end settlements in addition to current requirements for handling the greatest volume of business ever known. The figures published by the Federal Reserve Board of payments through the banks having membership in 140 of the leading clearing houses of the country show that in the week ended December 24, 1919, payments aggregated $10,290,479,000, as compared with $6,894,244,000 in the corresponding week of 1918. The demand deposits of the Clearing House banks of New York, including government deposits, on December 28, 1918, aggregated $4,143,926,000 and on December 27, 1919, aggregated $4,282,194,000. On the former date the loans and investments aggregated $4,-659,461,000 and on the latter date, $5,197,484,000. The increase of loans and the amount of loans in relation to deposits shows why money is tight.

The earning assets of the twelve Federal Reserve banks at the close of 1918 aggregated $2,-318,170.000 and on December 26, 1919, aggregated $3,080,495,000, which of course means an expansion of loans to this extent. In this expansion it is noticeable that the New York bank has a relatively small part, its earning assets having increased from $925.424,000 to $1,048,159,892.

These figures show that the New York banks cannot be charged with fostering speculation. The loans of the reserve banks have made their chief increase since September. On the 19th of that month they aggregated only $2,349,971,000.

The ratio of total reserves to combined deposit and note liabilities in the statement of December 26 was 44.8, the lowest point so far touched in the history of the system. The reserve of the New York bank was 40 per cent.

The New York money market is on a straight six per cent. basis for time loans. Necessary accommodations for trade and industry are being supplied, but the banks are endeavoring to keep down the volume of loans. Call money has ranged for much of the month around 7 to 12 per cent., and on several days reached 15 and 18 per cent. These rates were due mainly to the withdrawal of outside money from stock exchange loans.

Higher Interest Rates.

The Federal Reserve banks put into effect on the 11th of December the second advance of rates upon paper secured by Government obligations. Except as regards loans secured by Treasury certificates, Government paper is no longer favored. The table elsewhere shows the present rates.

As yet there has been no advance upon rediscounts of straight commercial paper, running 90 days or less, 4¾% being maintained, but it may be surmised that the Federal Reserve Board will not rest satisfied with the advances that have been put into effect. Of the intention of the Reserve Board to require the gradual liquidation of the paper secured by Government bonds ample notice has been given, and in view of the existing state of credit expansion there is every reason to expect that further measures to restrict the granting of credit and to make credit more expensive will be adopted. There need be no surprise if five per cent. is made the minimum for accommoda-

tions at the reserve banks at an early day. The fact is that the most effective results will not be obtained until the reserve rates are equal to those of the member banks.

Every banker knows that the course of expansion which has been followed during the past year should not go on. The Federal Reserve system was established to provide the means for expanding bank credit when emergencies required it, but the Federal Reserve Board was established at Washington to regulate and control such expansion, and the member banks and other banks are expected to co-operate with it in the enforcement of sound public policies.

The Federal Reserve Board has called a conference with bankers at Washington on January 6, to consider a modification of the existing relation between interest rates on bank deposits and the rates for bank loans.

Gold Movements.

According to the customs' records the exports of gold from the United States in the eleven months ended with November aggregated $321,-928,300, while imports amounted to $63,600,000, which would show a net loss of about $258,000,-000. These figures, however, do not include the $172,000,000 received by the Federal Bank of New York from Germany, which has been on deposit in the Bank of England, or the payments therefrom, amounting to about $34,000,000. This Bank has released gold from London in a number of instances to cover remittances from this country, thus saving the cost of bringing the gold from London to New York. As this London credit is included in the reserves of the Federal Reserve system it should be counted as an offset to our exports, and reduces the net exports of the eleven months to about $122,000,000.

The countries receiving the largest shares of the exports and the approximate amounts going to them are as follows:

Argentina	$44,000,000
Uruguay	7,500,000
Venezuela	11,000,000
Spain	29,000,000
China	64,000,000
Japan	82,000,000
British India	30,000,000
Dutch East Indies	7,000,000

Exchange rates upon all of the above-named countries are close to the gold point at this time, and further shipments may be made.

As yet the United States has received but little of the current South African gold production. It is understood to be going largely from Cape Town to India, pursuant to sales in London.

Silver Market.

The announcement by the Treasury of the arrangement under which it will sell silver dollars from the general fund for the purpose of steadying exchange rates with China has had the effect of preventing an advance in silver bullion above the previous quotations. Only 3,000,000 dollar pieces were released during December under the arrangement, but in all about 15,000,000 dollars were shipped to China during the month. There is no obstacle to the shipment of dollars gathered up from the circulation or obtained by the presentation of silver certificates for redemption, and both of these methods of obtaining them will be pursued as long as the coins are worth a premium for exportation as bullion. In addition to the coin shipments, new bullion has been going forward as obtainable from the production of this country, Canada and Mexico. The exports of silver from this country for eleven months to November 30, according to the customs' records, were of the total value of $208,426,260, and imports were $79,725,206. The consumption of new silver in the arts in this country in 1919 is estimated by competent authorities at about 25,-000,000 fine ounces, against about 17,000,000 in 1918.

The prospective demand for silver for coinage purposes outside of Asia is small. The United States Treasury will meet its requirements for the subsidiary coins by melting dollars, and the European countries cannot continue coinage on the present basis, as the bullion value of silver is above the face value of the coins. This is true of Mexico also. There is general discussion of the advisability of reducing the silver content of the coins or of substituting some other material, and if this results generally the present high prices may do harm in the long run to the silver-producing industry. Mr. McFadden, Congressman from Pennsylvania, has introduced one bill reducing the fineness of our subsidary coins from nine-tenths to eight-tenths, and another proposing to amend the Pittman act by authorizing the Secretary of the Treasury to sell all of the silver dollars in the Treasury upon the retirement of the outstanding certificates and to repeal the provision requiring the Secretary to repurchase silver bullion at $1.00 per ounce for the replacement of the dollar pieces disposed of under the Pittman act.

At present the foreign demand for silver is nearly all for China, as settlements with India of late have been largely made by means of gold. From April 1 to August 31, however, the imports of silver into India aggregated 98,302,459 ounces, which compares with 79,452,911 ounces in 1918 and 48,146,898 ounces in 1917.

The price of silver in the New York market in the last week of December was around $1.33 per ounce. Reports indicate that Mexico's production in 1919 has come back close to its highest record, and that world production will not be far from 200,000,000 ounces. The world's record production for one year was 226,000,000 ounces in 1911.

Gold Certificates Legal Tender.

The act making gold certificates legal tender has passed both houses of Congress, and if not signed by the President by the time this is printed undoubtedly will have his approval. There never was any good reason why gold certificates should not be a legal tender, but originally they were intended merely for convenience in making large cash payments, and they were an example of a currency which did not need the legal tender quality to give it circulation. It is necessary, however, that legal tender money shall be readily available for the discharge of contracts, and it is wanted in convenient form. The United States notes have been the only form of legal tender paper money outstanding, and the banks have been inclined to hold them out of circulation for this reason. As they exist largely in bills of small denominations this has had the effect of creating a stringency in these denominations. With gold certificates a legal tender the banks will release the United States notes for circulation, and the larger denominations of the latter as they come into the Treasury will be replaced with smaller ones.

Security Market.

During December the bond market as a whole was decidedly weak and there was considerable pressure from time to time due to the taking of income tax losses. It was also reported that there was some liquidation from Europe as a result of the continued decline in foreign exchange. Traction securities have been particularly weak and Interborough 5s and Brooklyn Rapid Transit 7% Notes, which have been largely cited as an index of the New York market, were extremely erratic with quotations ranging from 43 to 60 for the Interboroughs and 34 to 53 for the B. R. T. Notes. Foreign government bonds have been weak with Anglo French 5s selling down to 95½. Railroad bonds reflected the uncertainty still existing in the status of the roads as regards their ownership. Southern Pacific Convertible 5s made a sensational advance following the announcement that the Department of Justice would drop the California oil land case. Toward the end of the month a better tone was evidenced, the selling pressure having been largely withdrawn and an investment inquiry arising which resulted in advances of from 1% to 2% in the higher grade railroad issues and from 2% to 4% in the speculative issues as compared with quotations at the opening of the month. A wider buying among the institutions was reported and investment dealers as a class were displaying more optimism regarding conditions after the turn of the year.

Government and Liberty Issues.

Government bonds have experienced perhaps the most erratic month since the close of the Victory Loan. During the early part of the month there was considerable liquidation of Liberty bonds, which was attributed to three causes; the desire of holders to secure funds for business purposes; the payment of December 15 income taxes, and the taking of losses to be incorporated in income tax statements. Such a large portion of the liquidation was attributed to the latter cause that it was suggested to officials of the Treasury in Washington and the Federal Reserve Bank in New York that it might be advisable to permit owners of Liberty bonds to inventory their losses without actually consummating sales. An item finally appeared in one of the New York dailies that a bill would be introduced in Congress to obviate the necessity of such sales and as a result prices advanced materially, the Fourth 4¼s selling as high as 94.20 as compared with low levels of the preceding week, 91.40. The report of the Honorable Secretary of the Treasury, which appeared early in the month, stated that the Government had retired in the last eighteen months $1,043,308,000 of Liberty issues.

The market received another setback about the middle of the month when the Federal Reserve Bank of New York decided to raise the rates at which fifteen day advânces were made to member banks on notes secured by Certificates of Indebtedness, Liberty Bonds and Victory Notes. In the case of the Certificates the rate was increased from 4¼% to 4½% and in the case of Liberty Bonds and Victory Notes from 4½% to 4¾%. To this ruling was attributed considerable liquidation, the longer term Liberties declining ½%. During the closing week of the month the Liberty market was active but prices remained at low levels. Investment houses specializing in Liberty issues report a broader interest among investors and institutions which are taking advantage of the return of over 5% which can be obtained at present prices.

The Municipal Market.

The municipal market was inactive throughout the month with prices recording narrow fluctuations. In certain of the active issues, noticeably New York City bonds, declines occurred and these were attributed largely to the taking of losses for income tax purposes. There were fewer new issues of municipals during December than in any month of the past year, some of the larger offerings being $704,000 Albany, New York 4½s which were offered on a 4¼% basis and $540,000 Dayton, Ohio, 5% Bonds on a 4.70% basis.

The break in Canadian exchange rates resulted in several offerings of Canadian municipals and investors in this country took advantage of some very attractive yields. Two issues which were of particular interest were $2,632,000 Toronto, Ontario, 5½% Bonds on a 6½% basis and $3,000,-000 Province of Ontario 5½% Bonds on a 6.30% basis.

The question of federal taxation of income derived from municipal bonds was revived by the

recommendation of the Honorable Secretary of the Treasury in his annual report. It has been suggested that provision be made for the collection of taxes at the rate of surtax applicable to a taxpayer's total income including that part of the income which is derived from State or municipal bonds. This rate, however, is to apply only against that part of the income that is taxable. It is generally held that this method of indirect taxation of municipals is unconstitutional and in effect such a provision would be extremely detrimental to taxable securities as it would obviously result in those receiving large incomes disposing of their taxable securities and holding only tax exempt issues.

Corporate Issues.

New offerings of corporate issues were in restricted amounts throughout the month, and following the prevailing tendency during the year preferred stocks of industrial companies predominated. A total of the larger issues offered for general distribution shows an aggregate of $50,000,000 preferred stocks as compared with $42,000,000 fixed maturity obligations. Among the larger public utility issues were $10,000,000 Toledo Traction, Light and Power 7% Bonds due 1921 to yield over 7½%; $10,000,000 Cities Service Company 7% Debentures due 1966 to yield 7%; $4,000,000 American Gas & Electric 6% Notes due 1920-1924 to yield 7% to 7.10% and $4,000,000 Penn Public Service Corp. 6% Bonds due 1929 to yield 6½%. The larger preferred stock issues were $10,000,000 Famous Players-Lasky Corp. 8% Preferred at par; $7,000,000 Standard Oil Company of Ohio 7% Preferred to yield 6.40%, and $6,000,000 Hydraulic Steel Company 7% Preferred at par.

Investment houses engaged in the distribution of issues of this character report a slowing up in the demand for new issues, but they are obtaining a broad distribution and are adding to their books a great many new customers, which would seem to indicate a conversion of many Liberty bond subscribers into the permanent investment class.

The combined average of forty active corporate issues as compiled by the Wall Street Journal on December 24 was 78.66 compared with 80.30 on November 24 and 86.86 on December 24, 1918.

Railroad Legislation.

On Christmas Day the President of the United States published a Proclamation announcing that the railroads would be restored to their owners on March 1st next. This makes it imperative that remedial legislation be enacted within the next sixty days. A review of the Senate and House Bills, from which the final law must be derived, is, therefore, timely.

On December 20th the Cummins Bill, amending the existing Commerce Act, passed the Senate by a vote of 46 to 30. The division was not strictly along party lines since 13 Democrats supported the Bill and 8 Republicans voted against it. The House of Representatives passed the Esch Bill on November 17th. Both Bills are now referred to the Conference, and since they differ radically on many fundamental points, it is expected that the Conferees will not be able to agree on a bill acceptable to both Houses for some weeks.

Both Senate and House are overwhelmingly in favor of a prompt return to private management and are against continued Federal control and Government ownership. Both Bills recognize that revenues from existing rates will be insufficient to avert bankruptcy for a very large number of railroads and hence provides for a continuation of the Federal guarantee. Both provide for exclusive Federal regulation of capital issues and expenditures, as well as Federal regulation of intra-state rates where interstate commerce is affected; and both provide for the continuance of the present rate levels established by the United States Railroad Administration until such rates are changed by Federal authority.

The House Bill establishes a revolving fund of $250,000,000 for the financial assistance of the railroads during the first two years after Federal control, but to secure such advances a railroad must proffer security in the nature of receiver's certificates; that is, having a paramount lien. Just how a railroad not in the hands of a receiver can offer such collateral is by no means clear. The Cummins Bill provides for a revolving fund of $500,000,000 which may be loaned to the railroads under terms and conditions approved by the Federal Transportation Board and the Secretary of the Treasury.

The provisions of the Esch Bill, as amended, with respect to the funding of amounts charged by the Railroad Administration to the companies for additions and betterments made during the period of Federal control, are, as we pointed out in the December issue of this Letter, a serious menace to the credit of all but the richest companies. Here again, the Cummins Bill is the more just to the railroads since it provides that the maximum amount which the Government may deduct shall not exceed $223,823,000, leaving a balance to be funded and carried by the Government for a period of ten years of $551,728,000. This figure presupposes the funding through the medium of car trust certificates of the indebtedness of the carriers incurred for equipment ordered by the Railroad Administration.

The House Bill imposes upon the already overburdened Commerce Commission the performance of many new duties and the administration of many new regulations, to meet which its membership is to be enlarged from nine to eleven. The policy of the Cummins Bill recognizes the fact that the Commission has been required to act in both administrative and judicial capacities, and for that reason takes away much of the adminis-

trative work and places it upon a new body to be known as the Federal Transportation Board, consisting of five members, to be appointed by the President with the consent of the Senate.

Under the Senate Bill the railroads are permitted to consolidate during the next seven years; thereafter the Federal Transportation Board is required to carry the process further in order that all the railroads of the country shall be grouped into competitive systems of not less than 20 and not more than 35. There is no compulsory feature in the House Bill.

Labor Provisions.

The divergence between the two Bills is very sharp in the matter of labor provisions. The Cummins Bill, recognizing the danger to the entire country resulting from a suspension of transportation, provides a means for permitting just settlements of labor disputes through tribunals created by the Bill, and strikes are declared to be unlawful. The House Bill also originally provided elaborate machinery for dealing with labor disputes but no means were provided for enforcing decisions. The Bill was amended through the influence of the Brotherhoods and now does not prohibit or in any wise discourage strikes.

The Esch bill also confirms decisions rendered by the Railroad Administration in the matter of wages, hours of service and conditions of employment, until superseded by mutual agreement between the carriers and the employees. Referring to this, Judge Lovett, chairman of the Union Pacific System, says:

> "But the most remarkable provision is that the Act as thus amended makes every decision of the United States Railroad Administration or of the Commission of Eight permanent, for it says all such decisions
>
> > 'affecting questions of wages, hours of service or conditions of employment are hereby confirmed and shall apply to all carrier lines subject to this Act. Decisions which have been rendered by the United States Railroad Administration and which apply to the individual carriers subject to the provisions of this Act shall remain in effect until superseded by mutual agreement between the carrier and the employes or by decision'
>
> of one of the Adjustment Boards created by the Act. Of course this provision means that no change can ever be made except in the way of further wage increases, since the requisite 'mutual consent' to a reduction or modification will not be given by the Unions, and will not be 'superseded' by the Adjustment Boards, since under the act the Unions have one-half the membership of each Board."

The Honorable W. G. McAdoo as Director General of Railroads, in his preamble to General Order No. 27, issued May 25th, 1918, says: "It is an inspiring task—this task of putting upon a more just and equitable basis the wages and working conditions of loyal workers in the railroad service—." Notwithstanding the clear intention here expressed, the original Order, with its various Supplements, Addenda, Amendments and Interpretations, materially changed the relative recognition of services rendered and so threw out of balance a system which was the outgrowth of years of experience.

The classification of an employe determines his compensation and if several different duties are assigned to one man the classification receiving the highest rate of pay prevails independent of the relative amount of work performed. An ordinary workman whose duties in the past included the making of even the most minor repairs may become classified as a machinist or carpenter, in which event he is paid the same rate as men long skilled in the trade. At the same time General Order No. 27 excludes from its application all employes receiving on December 1st, 1915, $250 a month or over, so that today there are innumerable instances of men receiving pay in excess of their own foremen.

The wage orders affecting locomotive engineers, while graduating pay according to hours of service, length of runs and class ot trains, again do not permit proper recognition of individual merit or efficiency. A certain railroad under Federal control which is operated by electricity and whose passenger service is of the usual interurban type, is required to pay its motormen the stipulated rates for steam locomotive engineers notwithstanding that a month's apprenticeship is all that is needed to qualify a motorman.

Should the Esch Bill, as passed by the House, perpetuate these and all of the other inequalities which exist, there would cease to be incentive to become expert in the various branches of the railroad profession, and the inability of the management to recognize merit and proficiency by financial reward without promotion would equally adversely affect the efficiency and economies of operation.

The original General Order No. 27 says: "The principle of the basic eight-hour day is hereby recognized." With this we have no quarrel. It is decidedly unsound, however, to include as part of the basic eight hours a substantial amount of unproductive time heretofore not recognized. Illustrative of the effect of this and also of theoretical classification is the case of an agent in a small isolated station having minor duties extending from 7 A. M. until 9 P. M., who, the wage orders say, shall receive $222.96 per month, an increase ot $187.96 over the $35 per month paid him January 1, 1918. This is brought about by his use at times of the railroad telephone changing his classification to telephone operator, and by crediting him with 14 hours of continuous service less the one hour allowance for lunch. The 13 hours thus arrived at become 15½ hours by the application of time and a half for overtime. The unfairness of this is emphasized by the pay provided for the agent at a nearby station where eight-hour shifts are in force. This man is entitled to only $115.20 per month although he has continuous duties of a respon-

sible nature, while the agent at the small station has duties of minor importance occupying a total of not over four hours a day of actual service.

The wage orders and working rules which have brought about such inequalities and abnormal conditions were formulated under the pressure of war. It is inconceivable that Congress in the eventual enactment of railroad legislation will permit itself to be influenced by labor interests to the extent of perpetuating as law a series of practices which by their continued operation would place a further burden upon industry and commerce. It would be fatal to discourage individual effort and ambition in the rank and file of railroad employes or to prohibit or interfere with the free judgment of officials in recognizing achievement and rewarding accomplishment. Labor is slow to realize that the fostering of an increase in individual production is for its own good. It is only by this, resulting in increased production in every line of endeavor, that the high cost of living can be permanently reduced and the many benefits so far gained by labor be permanently retained.

The Rules for Rate Making.

In the rules for rate making the two Bills are also diametrically opposed, that of the lower House merely restating the existing law that "rates shall be just and reasonable." The Cummins Bill requires that the Commission must provide rates (a) that at all times shall be just and reasonable and sufficient to produce a reasonable return upon the aggregate value of the property in each rate group; (b) that the railways as a whole in each district shall earn a net operating income equal, as nearly as may be, to 5½% upon the aggregate value of their property, with the provision that the Commission, in its discretion, may allow ½ of 1% additional to make provision for non-productive improvement, etc., and (c) that consideration must be taken of the interest of the public, the shipper, wages of labor, cost of maintenance and operation, including the requirements for additional capital in order to enable the carriers to adequately perform their duties to the public, and the conditions under which the same can be secured. The 5½% basis is subject to review and change in 1925 and every fifth year thereafter.

Such carriers which earn an income in excess of 6% are restricted in their enjoyment of such earnings, and for this reason some of the leading railroad presidents have expressed themselves as being fearful lest this limitation on earnings chill the spirit of enterprise and destroy the incentive for efficient management. The Cummins rule for rate making has also been criticized as establishing a rate of return which, in the present high money market, is too low to enable the carriers to procure those immense voluntary contributions of new capital which are so urgently needed. The chiefs of the Railway Brotherhoods, on the other hand, point to the fact that the Government is paying only 4¼% and 4¾% to the holders of Liberty bonds and that it is a piece of unjustifiable generosity to guaranty railway security holders 5½% or 6%. Of course, no real analogy exists. The Cummins Bill would establish rates for each traffic section of the country sufficient to show a return on the aggregate value of the transportation property, not on the outstanding securities, and each railroad would still be subject to all the hazards of competition.

Attitude of Investors.

"Any legislation," writes Senator Cummins, "which may be proposed upon the hypothesis of private ownership and operation must tender to the future investor reasonable security for the investment he is asked to make and reasonable assurance of such yearly return upon his money as will induce him to enter the field. The better the security and the more certain the return, the less will be the rate required to attract investment." Unless the Conference in Washington can produce a Bill which will remove the distrust which the investor now feels towards railroad securities, Government ownership is sooner or later inevitable. An interesting example of the investor's distrust has recently been brought to our attention. A certain western railroad, reorganized ten years ago, has spent since that time $22,500,000 in improvements to its property, or $16,000 a mile. The value which the public has placed on the bonds of this company, measured by current quotations, is less than $14,000 a mile. The property could be scrapped and sold for more than that. Principally owing to the uncertainty as to the termination of Federal control, railroad bond prices receded during December in many cases to the lowest prices ever recorded, and some of the bonds of well known trunk lines could be acquired on a basis in excess of 12%.

Objections to Government Ownership of Railroads.

Since there is unquestionably a strong sentiment in the country against it, Government ownership of railroads will come only through the failure of Congress and the regulatory authorities to make provision for attracting capital. The objections to Government ownership were admirably summarized as long ago as 1886 by President Hadley in a report to the Italian Government. It is perhaps well at this time to restate this summary:

1. Most of the pleas for state management are based upon the idea that the state would perform many services much cheaper than they are performed by private companies. This is a mistake. The tendency is decidedly the other way. The state is much more likely to tax industry than to foster it.

2. State management is more costly than private management.

3. The political dangers would be very great. Politics would corrupt the railroad management and the railroad management would corrupt politics.

The experience of the world since these words were written has fully confirmed their cogency. In no other country are railroads of the commanding importance they are in the United States. Under private ownership they have been, by and large, good and faithful servants of the people. To transfer them to the Government is to transfer them to an agent who, judging by the unchanging conduct of human nature, is not competent to assume such administrative duties.

But apart from these objections there is still another which is of transcending importance. This is the cost of acquiring the railways of the country which are capitalized at about twenty billion dollars. Doubtless, it was with this thought in mind that the Valuation Committee of the National Association of Railway & Utility Commissioners wrote in their 1919 report, "All advocates of the Plumb Plan or any other form of Government ownership recognize that the value of the properties must be ascertained and a large number of people will reserve judgment as to the wisdom of Government ownership until something is known relative to the amount of money which it will take to purchase the properties."

What Are the Railroads Worth?

The Supreme Court has held that it is the property, and not the original cost of it, of which the owner may not be deprived without due process of law. The Interstate Commerce Commission through its Bureau of Valuation is now engaged in the effort to find out the present value of the railway properties, and some $60,000,000 have been spent by the railroads and the Bureau to date. Fifty-three tentative valuations have been served but there has not been fixed a single sum as the final value of any carrier company. The tentative valuations are merely inventories or reports made by the engineering, land and accounting sections of the Commission of things that are to be taken into consideration in determining value. Elements of value which have not been reported include cash on hand, securities owned, materials and supplies, lands owned but not at present used for carrier purposes, and "going concern" value. Bearing in mind that the tentative valuations omit these and other elements, nevertheless they disclose the fact that of the 25,700 miles of road tentatively valued, 19,500 miles, or 75% show a cost of reproduction new substantially in excess of the investment account as stated by the carrier. It should be remembered that the investment account is almost always a larger figure than the outstanding capitalization.

In respect to 6000 miles of road, or 25% of the mileage tentatively valued, the cost of reproduction new is reported to be less than that of the cost as carried on the books of the carriers.

Even here the over-capitalization is much less than it appears. For example, the Atlanta, Birmingham & Atlantic and the Western Pacific have both been reorganized recently, and yet the property investment accounts with which the costs of reproduction now are contrasted, are those of the predecessor companies. Both were materially reduced by the reorganization. The Atlanta, Birmingham & Atlantic reports that it cost, in actual cash $43,500,000, to construct and equip its properties and that its reorganized capitalization is $39,290,000. The reorganization of the Western Pacific cut $50,000,000 from its investment account, and recently it has been announced that the Bureau of Valuation had made substantial additions to the cost of reproduction as first reported, as a result of which the securities of this company in par value about equal the tentative valuation.

All the evidence so far accumulated by the Interstate Commerce Commission refutes Mr. Plumb's unwarranted assumption that the railroads could be taken over by the Government at a cost of ten or twelve billion dollars. We are satisfied that if the Government should acquire the railroads by condemnation proceedings following a judicial determination of their value, the purchase price would be nearer twenty billion of dollars. The financing of a purchase of such magnitude would present a problem of the greatest difficulty.

Railroad Salaries.

Congressman Sims, of the House Committee on Inter-State Commerce, has published a list of railroad salaries of $20,000 a year or more in 1917, at the time the roads were taken over by the Government. The list shows that 200 out of 20,000 general and divisional officers received salaries of $20,000 or more and that the aggregate paid to those 200 was $6,644,000, and that the aggregate salaries of those receiving $50,000 or more per annum was about $1,900,000.

No doubt there are many people who think that these salaries represent mere favoritism, and that no man can have so much more ability than the average man as to make him fairly worth so much more than the average rate of pay. It may be assumed that if Government ownership was made permanent no such salaries would be paid by the railroads, and that the men able to command such pay would be allowed to seek other lines of business.

It is possibly true that there are many men in the country with as good native ability as these railroad executives, and who with the same experience would make equally capable officials, but not having had the necessary training, or proved their capacity, they are not on the list of eligibles when a railroad president is to be selected. A Board of Directors which is about to select a man for a responsible position, where large sums of

money are to be disbursed, and where his decisions may make or save sums vastly in excess of his salary, naturally will pay more for a man of proven qualifications than for one of whom little is known. There is no sensible individual who will not do the same in his private business. The high pay is based upon a record which affords proof of capacity. It is insurance against the wastes of incompetency. It is the competitive market price for demonstrated worth, and the reward for a successful career. The Railway Age calls attention to the fact that these officials are usually men who have spent many years in the railroad service, rising by promotion through many grades, and thus becoming fitted for the positions of executive supervision and responsibility. These are the prizes of the railroad world, tending to hold young men of ambition and ability in the profession as against the opportunities which exist in other lines of effort. The idea of limiting pay in the railroad service is a part of the general theory which lays emphasis upon regulation, restriction and limitation of effort and leveling down of achievements, instead of upon stimulating effort and achievements.

If the salaries of the 200 who received $20.000 or more had been uniformly $20.000 the total of payments would have been $4,000,000. The excess over this was $2,644,000, which figures in total expenditures that year of about $2,828,000,000. The average number of all employes in that year was 1,732,703, and if this excess had been divided among them equally the amount to each would have been about $1.50.

Short Credits to Farmers.

At a meeting of the Board of Directors of the Farmers' Fund, Inc., of New York State last month, a report was submitted by the President upon its operations during the past summer. The "Farmers' Fund, Inc.," received its charter from

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS DECEMBER 26, 1919.
(In Thousands of Dollars)

Federal Reserve Bank of	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
RESOURCES													
Gold coin and certificates	7.844	147.197	1.182	10.220	2.402	8.350	24.060	2.738	8.261	168	6.617	10.406	229.115
Gold Settlement Fund F.R. Board	36 211	41.560	28 344	33 906	25.152	25 734	[illegible]	13 374	1 338	27 192	14 772	36 286	352 785
Gold with foreign agencies	9 805	49.296	10.716	11.014	6.582	4 835	15 984	6.313	3 627	6 447	3.492	6 179	[illegible]
Total gold held by banks	53.860	238.053	40.272	55.200	34.136	38.919	108 900	22.425	13.226	33.907	24,881	52,871	716.550
Gold with Federal Reserve Agents	73.782	307 385	82 491	125 048	41.036	64.734	245 883	65 920	35 570	[illegible]	27 878	130.447	1 240 032
Gold Redemption Fund	25 223	25 000	15 578	1.005	6 371	7 053	17,572	5 922	2.377	4.023	3 422	8 304	121 850
Total gold reserves	152 865	570.438	138.341	181.253	81.543	110.706	372.355	94.267	51.173	77,688	56.181	191,622	2.078.432
Legal tender notes, Silver, etc.	3 238	45.602	539	533	188	970	1.829	2 240	72	343	1.166	384	57.104
Total Reserves	156.103	616.040	138.880	181.786	81,731	111.676	374.184	96.507	51.245	78.031	57.347	192.006	2.135 536
Bills disctd: Sec by Govt. war obligations (a)	138 206	584 588	178 648	120.536	87 901	61 379	[illegible]	44.142	22 465	36 897	42.634	46.128	1 510.364
All other	56 630	203.606	29.192	47.041	20,760	28.843	128 4.9	34.093	47.592	50.536	11.427	26.085	684.514
Bills bought in open market (b)	16.505	191 312	4 698	58.923	16.031	16 231	108.352	36 936	11.401	15 981	7.734	96 107	585 212
Total bills on hand	211.342	979 596	212 838	224.500	124.692	106.453	383.621	115.171	84.458	107.414	61.795	168.300	2.780 090
U. S. Governm't Bonds	539	1,257	1,385	833	1,235	375	4.476	1,153	116	8,867	3.966	2.632	26,834
U. S. Victory Notes		50		10		4							[illegible]
U. S. certificates of indebtedness	21.661	67.347	30 529	24.817	12 260	15,666	39 754	17 216	[illegible]	15.249	[illegible]	11 438	273.507
Total Earning Assets	233.512	1.048,160	244.752	250 160	138.187	122.498	427 851	133,540	93.054	131.530	74 851	182 370	[illegible]
Bank premises	1,091	3,994	500	895	519	515	[illegible]	691	600	462	[illegible]	400	13.002
Uncollected items (deduct from gross deposits)	81 682	235 089	86.294	91.234	90.282	50 072	139 834	70.649	[illegible]	[illegible]	[illegible]	47.758	1,075.100
5% redemption fund against F. R. bank notes	1,072	2 959	1.475	1.146	443	793	2.116	647	428	[illegible]	560	665	13 237
All other resources	280	1.306	1.061	344	1,506	141	1.785	316	157	441	261	424	[illegible]
TOTAL RESOURCES	473 770	1.907,518	472 962	525.565	312 669	285 700	948.706	302 370	174.769	302.126	195 654	423.623	6,325.432
LIABILITIES													
Capital Paid in	7.108	22 388	7.841	9 482	4.392	3.424	12.347	4 063	3.074	4 012	3.417	5.748	87 339
Surplus	5.206	32.922	5 311	[illegible]	3.800	2.805	9,710	[illegible]	2.320	3 957	[illegible]	4.578	81 087
Government Deposits	8.338	12.641	2,966	6.746	8.319	5,105	1.646	3.872	2.721	6.959	5 377	7,667	72.357
Due to members reserve account	110.335	706 254	95 505	127.627	61.081	61.081	253.864	67 092	51.532	77.723	58.423	116 357	1,786 874
Deferred availability items	63.293	168.383	80.832	70.420	68 364	36.129	103,130	55.155	15.459	78.441	37.607	25.467	[illegible]
Other deposits including foreign Govern't credits	8.288	47.685	6,832	6.147	3 610	2 681	10 036	3.588	2.216	3 645	[illegible]	[illegible]	[illegible]
Total Gross Deposits	190 254	949.963	186.135	210.940	141.374	104 996	368 676	129.707	71,928	166.768	103.475	[illegible]	2.779 570
F. R. Notes in actual circulation	246.455	824.944	210.273	272.881	[illegible]	[illegible]	510.018	148.452	87.475	103 100	[illegible]	[illegible]	3.057.646
F. R. Bank Notes in circulation, net liability	20.714	54 624	29.028	22.197	12.051	15.663	41 109	15.610	8.157	19.546	10.415	11.895	[illegible]
All other Liabilities	4.003	22 677	4 331	4.202	2 359	2 213	6 816	1.9 9	1,815	2.743	1.434	4.179	58.751
TOTAL LIABILITIES	473.770	1.907.518	472.962	525 565	312 669	285.700	948.706	302.370	174.769	302.126	195 654	423.623	6.325.432

(a) Total Reserve notes in actual circulation. 3 057.646.
(b) Bills discounted and bought. U. S. Government short term securities; municipal warrants, etc.: 1—15 days 1.624.262; 16—30 days 349 815; 31 60 days [illegible]; 61 90 days 314.981; over 90 days 258 600. Total 2 997 836.
Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 50.6%. Ratio of gold reserves to F. R. notes in actual circulation after setting aside 35% against net deposit liabilities—59.7%.

the Superintendent of Banks on May 28, and succeeded to the business of the "Patriotic Farmers' Fund," which was organized to aid agricultural production during the war.

Total loans since May 28 including those taken over from the Patriotic Farmers' Fund, were $663,758.50, of which $235,050.51 have been repaid, leaving $428,707.99 outstanding.

The loans were divided as to general character, as follows: Crop loans, 50 per cent; live stock loans, 35 per cent; machinery loans, 15 per cent. Loans exceeding $500 in amount, which are not numerous, were secured by chattel mortgages.

The experience of the Patriotic Farmers' Fund and of the Farmers' Fund, Inc., has been that losses on these classes of loans are but a small percentage, and that the loans are an aid to production. The demand for the small loans exceeds the resources of the organization, and the managers are convinced that with more capital at their disposal, in order that the overhead charges may be lessened proportionately, the business will pay a six per cent return and render a valuable public service.

This organization seems to have justified its existence and to be worthy of support. It was designed to handle a class of business which was recognized as more hazardous than the common run of business welcomed by bankers. A bank which is lending the money of its depositors is properly careful and intends to avoid losses so far as possible. This policy is not to be criticized, but on the other hand there is a public interest in increasing the production of foodstuffs and in promoting prosperity on the farms. The Farmers' Fund may do good educational work in developing bank depositors in its experiments with farmers who have not been accustomed to doing business at banks.

The offices are at Rochester, and the business is in charge of M. W. Cole, President. A. B. Hepburn, of the Chase National Bank, William Woodward, of the Hanover National Bank, Jacob Schiff, of Kuhn, Loeb & Co., and William Church Osborn are New York City men of prominence on the Board of Directors. The association seeks the co-operation and counsel of bankers throughout the state. It has been an experimental organization, trying to learn how practical assistance may be given to small farmers.

The National City Bank's New Branches.

During the year 1919, The National City Bank of New York opened thirty-two new foreign branches and the International Banking Corporation (owned by The National City Bank) opened five such branches. The two institutions together now have a total of seventy-five branches, and still others are to become a part of the world-wide organization of The National City Bank within the near future.

The branches opened by The National City Bank of New York during 1919 were as follows:

Argentina—Once (Buenos Aires), Rosario. Brazil—Pernambuco, Porto Alegre. Belgium—Brussels. Colombia—Medellin. Cuba—Artemisa, Bayamo, Caibarien, Camaguey, Cardenas, Ciego De Avila, Cienfuegos, Colon, Cruces, Guantanamo, Cuatro Caminos (Havana), Galiano (Havana), Manzanillo, Matanzas, Pinar del Rio, Placetas del Norte, Remedios, Sagua la Grande, Sancti Spiritus, Santa Clara, Union de Reyes, Yaguajay. Spain—Barcelona. Trinidad—Port of Spain. Uruguay—Calle Rondeau (Montevideo). Venezuela—Maracaibo.

The branches of the International Banking Corporation which were opened during 1919 were:

China—Harbin, Tsingtao. France—Lyons. India—Rangoon. Dominican Republic—Sanchez.

The first foreign branch of The National City Bank of New York was opened at Buenos Aires a little more than five years ago (November 10, 1914).

Discount Rates Approved by Federal Reserve Board up to December 31, 1919.

Federal Reserve Bank	Discounted bills maturing within 90 days (including member banks' 15-day collateral notes) secured by		Trade Acceptances (b) maturing within 90 days	Agricultural and live stock paper maturing within 91 to 180 days
	Treasury Certificates of Indebtedness	Otherwise secured and unsecured (a)		
Boston .... (c)	4½	4¾	4¾	5
New York .... (d)	4½	4¾	4½	5
Philadelphia	4½	4¾	4¾	5
Cleveland .... (e)	4½	4¾	4½	5¼
Richmond	4½	4¾	4½	5
Atlanta .... (d)	4½	4¾	4½	5½
Chicago	4½	4¾	4½	5½
St. Louis	4½	4¾	4½	5½
Minneapolis	4½	(f) 4¾	4½	5½
Kansas City	4½	5	5	5½
Dallas	4½	5	5	5¼
San Francisco...	4½	4¾	4¾	5½

(a) Rate on paper secured by War Finance Corporation bonds, 1 per cent. higher.
(b) Rate also applies to bankers' acceptances discounted by the New York and Cleveland banks.
(c) Rate of 4¼ per cent. on paper secured by 4¼ per cent. certificates.
(d) Applies only to member banks' collateral notes.
(e) Rate of 4¼ per cent. on member banks' collateral notes secured by 4¼ per cent. certificates.
(f) Rate of 5 per cent. for maturities 61 to 90 days.
Note—Acceptances purchased in open market, minimum rate 4 per cent.
Note 2—Differentials between rates on paper secured by Liberty bonds and Victory notes and on ordinary commercial paper were abolished by all banks during the month of December.

THE NATIONAL CITY BANK OF NEW YORK

1920

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, FEBRUARY, 1920.

General Business Conditions.

THE most notable fact in the business situation in the first month of the new year has been the maintenance of trade activity and of the demand for money, without the relaxation which usually follows the turn of the year. Payments through the banks, as shown by the reports to the Federal Reserve Board have been in about the same volume as in December, although a moderate reduction in the volume of Federal Reserve notes in circulation indicates some falling-off in retail trade.

The jobbing centers report buying on a large scale, with general confidence in the maintenance of existing prices or advances therefrom. Textiles have been very strong, but in the latter part of the month some weakness was noticeable in cotton goods, with greater willingness on the part of producers to sell ahead.

Woolen goods for fall delivery will be apportioned to customers on the basis of past patronage, which is a situation which virtually precludes controversy over prices. Outside of this distribution there will be some competitive bidding.

The iron and steel situation is tight, with the United States Steel Corporation adhering generally to the scale of prices made last spring, but early deliveries command premiums in the open market. The strike has been officially declared off by the leaders, who had insisted to the last moment that they were winning. There is no occasion for congratulation anywhere over the strike, except in the fact that the great body of American-born workers refused to have anything to do with it. The stoppage cost a great deal of money to the workers, the employers and the public. It came at a most inopportune time, with the whole world needing iron and steel, and has been a lamentable factor in retarding industrial recovery everywhere.

Wages and Prices.

A state of under-production exists all around the industrial circle, due largely to labor discontent, and the effect is to make the cost of living higher and cause more discontent. There is much complaint from employers that higher per diem wages and a shorter day are accompanied by reduced production per hour. A widespread, persistent, well-financed campaign of propaganda is being carried on to instill suspicion and discontent among the workers. Wage increases of course accomplish nothing in the face of diminishing production. An actual scarcity of necessary goods exists the world over today, which means that the average consumption per individual must be less. It follows that the person who insists at this time upon having as much for consumption as in normal times is insisting upon more than his share of the existing supply. It is something more than a question between employers and employed; it is a question of fair distribution of the consumable goods. The whole argument that wages must be advanced to cover the rising costs of living, although plausible, is fallacious, because it assumes that each individual is entitled to have as much as though there was a full supply. The effect of raising wages under such conditions is to increase the demands upon the limited supply of goods and raise prices. There are two remedies for the situation, and only two, viz.: (1) personal economy: let every person reduce his purchases as much as possible; (2) increased production: let every person do his part in his own way to relieve the existing shortage and get the world back into easy conditions again.

Labor Situation More Quiet.

So far as strikes are concerned the general situation has been better since the settlement of the coal strike. No large bodies of men are out at the present time, and there is reason to hope that an appreciation of the common interest in stable conditions is influencing the leaders to more conservative and constructive policies.

The head of the organization of coal miners has given out a statement explaining that the demand of that organization for a thirty-hour week was intended as a demand for a minimum instead of a maximum of working time. In other words, the miners wanted to be assured of work enough to afford them fair earnings. He stated that the miners had averaged only about $75 per month during the past year. It is generally agreed that there has been too much seasonal unemployment in the mining industry. It is wasteful and

harmful in many ways to have tens of thousands of miners idle throughout most of the summer months waiting for an opportunity to work in the fall and winter. Operators have claimed that this situation is due to competitive conditions in the industry, which cannot be remedied without agreements which would be in violation of the anti-trust laws. In other words, it is one of the incidental and unintentional results of well-meant legislation for the regulation of business. It is to be hoped that the commission now having the coal industry under consideration will find a way to remedy this fundamental economic condition, so that the miners will have an opportunity to obtain full time and good earnings without increasing the cost of coal to consumers.

In this connection it may be not out of place to say that in view of the great demand for labor on the farms which is known to have existed last summer, it seems a little strange that the coal miners who are located in the states where agriculture is a leading industry did not solve this problem of unemployment for themselves. In such states as Ohio, Indiana, Iowa, Missouri and Kansas it is quite certain that coal miners would not have to go far to find work in the summer season. This comment is suggested by the following paragraph taken from the columns of the Des Moines Register:

"One of the most serious problems that confronts farmers and stockmen today is a shortage of competent help," said a well-known stockman at Ames recently. "Farm labor has become so high and is of such questionable quality that the crop acreage will have to be reduced in many sections or the working hours lengthened. Even married couples are no longer dependable. One of my neighbors employed a young married man a short time ago, paying him $75 a month straight through the year, provided a five-room house with several little conveniences, gave him the use of a cow and a couple dozen hens, and offered him a good sized garden plot and all the fruit he and his wife could use during the winter. The couple moved back to town after the first month."

It is a fair question whether a coal miner living amid these conditions is justified in claiming wages enough in the winter season to enable him to live without working at anything throughout the summer. Most of the men who are now employers of labor were taught in their youth that if they could not find work of one kind they must look for another kind. Does responsibility rest upon the public to provide each individual with work of a particular kind? A moderate transfer of labor from coal-mining to agriculture or other occupations would compel a readjustment of conditions in the coal industry in the natural manner.

Farmers Dissatisfied.

While agitation for shorter hours and more pay continues in the industrial field, a state of dissatisfaction exists among the farmers over the decline which has taken place since last summer in some of their products. The January live stock report issued by Bartlett-Frazier, a Chicago commission house says that "reports are almost unanimous in their showing of dissatisfaction among hog raisers and a disposition to sell brood sows and definitely decrease breeding for a spring pig crop. The losses to feeders of both hogs and cattle during the past six months have been very severe, and the feeding industry is going through a period of discouragement."

The grievance of the farmers is that the prices of what they have to buy do not go down with the prices of what they have to sell, and this complaint is commended to the attention of all who think that the prices of manufactured goods can be maintained after the prices of farm products have generally declined. The purchasing power of the farming population is in the prices of farm products, and as they decline they will pull down the whole wage scale and price level.

Labor leaders may say that present wages will never be reduced, popular opinion may theoretically approve and employers may assent, but if the purchasing power of the great interior districts of this country declines those districts will buy fewer goods unless those goods come down correspondingly. The prosperity of the farming districts has been a very large factor in the demand for labor in the manufacturing cities. So long as employers are able to add wage-increases to the prices of their products they will grant the latter, but employment and wages depend at last upon the purchasing power of the consuming public. The entire price and wage situation might change rapidly.

Export Trade Threatened.

One of the influences which may bring about a change is the foreign trade situation. Elsewhere we give the figures by months for the exports of meats and dairy products for eleven months of 1919, and invite attention to the decline of pork products in the later months. It is a noteworthy fact also that shipments of butter are being received at New York from Denmark. The premium on exchange is a factor in this movement. Exports of cotton have been heavy during the past month, and wheat continues to go out in good quantities, but there are signs that other exports have been falling off. Ships are said to be going to Europe without full cargoes. The decline of the foreign exchanges continues, which is ominous for sales. It must not be thought that this situation can be met by willingness on the part of foreign buyers to pay the high rates. The exchange must be bought in this country, and the declining rates indicate that the market is over-loaded. This one-sided trade requires that more and more credit must be provided as the weeks pass. This is the weak point in the business situation, and gives careful observers a feeling of uneasiness. They do not see how exports can go on at the present rate and have misgivings that a heavy decline may have a depressing effect upon domestic prices and general industry.

Railroad Service Inadequate.

Business is being seriously embarrassed by a shortage of railroad cars. While the Conference Committee representing the two houses of Congress is deadlocked over the problem of affording adequate protection to capital investments in railroads, production is being interrupted and the public is suffering losses that amount to vastly more than it would cost to settle the question of compensation to capital on the most liberal basis proposed. Good railroad service would be much cheaper at any terms under discussion than poor service.

The Money Market.

The long-expected advance in discount rates has been made by the Federal reserve banks, raising the rate on commercial paper for the first time. The advance to 6 per cent removes the margin of profit upon rediscounts to banks in states where that is the legal rate of interest. That of course will not be in all instances a bar to accommodations; the bankers of the country will want to meet the necessities of their customers, but the public will have to understand that this advance has been made for the purpose of holding loan expansion in check, and general co-operation is expected.

We have repeatedly called attention to the situation which has called for an advance of rates. The last consolidated statement of the Federal reserve banks in September showed total bill holdings of $2,224,773,000, and the statement of January 2 showed bill holdings of $2,805,818,000. The Reserve Board delayed action upon commercial borrowing until past the turn of the year, when this class of credits usually shows a natural tendency to liquidation.

The Board has again favored loans secured by government obligations, the rate upon rediscounts secured by government bonds being fixed at 5½ and that upon Treasury certificates at 4¾ per cent. Under normal conditions all loans upon securities would bear a higher rate than rediscounts of commercial paper, but the Board evidently desires to avoid further pressure of government bonds upon the market at this time.

As indicated above, this advance of rates affects the earnings of the member banks more than it will directly accomplish a curtailment of credit, but doubtless it will be accepted by the borrowing public as a sign of the times.

The shortage of cars in the west has delayed the movement of grain from the country to the centers, and has kept the member banks of several states in tight condition, but the movement of the grain would only shift the burden for the present. The final liquidation will occur as the season advances and the crop goes into consumption.

This is a time for economy and caution, and for general cooperation to reduce the volume of indebtedness. If attention is directed to the importance of so doing there will be no lack of funds to handle the really necessary business of the country. A resolute curtailment of unnecessary expenditures and postponement of plans which do not require immediate action will accomplish it. The situation is the reverse of what it was a year ago. The question then was how to provide employment for the wage-earners being released from the army and from war work. Now it is to prevent undue pressure upon the industrial and financial resources of the country. There is reason to believe that a great amount of capital is being wasted in new enterprises which will add nothing to the wealth of the country. A man of high standing and good opportunities for observation a few days ago told the Senate Committee which is considering a bill to regulate the issue of securities, that from $400,000,000 to $500,000,000 was invested in flotations within the State of Iowa last year, a large part of which were of doubtful character.

Foreign Trade and the Exchanges.

The figures for the totals of this country's foreign trade in 1919 are now on hand. Imports amounted to $3,905,000,000 and exports to $7,922,000,000. For December the figures for imports were $381,000,000 and exports $681,000,000.

The figures by countries or grand divisions are not yet available for the entire year, but based upon eleven months they show that we were a creditor on a great scale to Europe and a debtor to South America and to Asia. Of the sum total of nearly $8,000,000,000 exports, over $5,000,000,000 went to Europe and we received less than $800,000,000 in goods from there in return.

On the other hand, we bought $631,591,000 worth in South America and sold $411,151,000 worth there, and bought $928,709,000 in Asia and sold $640,873,000 worth there, not including silver which is treated as bullion in settlement.

We sent approximately $175,000,000 worth of silver to Asia in eleven months of the year, with December to be reported. The total amount of silver exported during the same period to the whole world was $208,426,000.

Unfortunately we are unable to offset our credits in Europe against our debits in Asia and South America, for Europe is likewise debtor to Asia and South America. England in like manner is a creditor to the continent but unable to use her credits there to settle her debits in America.

The Declining Exchanges.

The figures on the trade with Europe show the reason for disquietude concerning the basis of our present prosperity. The balance in our favor is enormous and nobody knows definitely how settlement is being made, or dares venture an opinion as to how long exports can be

maintained at this rate. It is known of course, that the remittances by our foreign-born residents to relatives and friends in Europe are larger than usual, and that the same class is investing considerable amounts in securities and property in the old countries, being induced to do so by the high value of the dollar in the exchanges. It is understood also that American securities which have been held abroad are continually coming home, and that other foreign interests in this country are being liquidated, thus creating offsets. It is true also that the earnings of foreign shipping, especially British, are an important item on the other side. But when all the credits to Europe are summed up the most liberal estimates fall short of balancing the account.

The conclusion is forced that American exporters are granting credit direct and that the public has been absorbing foreign exchange as a speculation, perhaps to an unsuspected extent. However it has been done, there is a certainty that the resources drawn upon are not inexhaustable, and that our foreign business is on a precarious basis. It must have more definite support or exchange rates will go low enough to check the movement. If the decline occurs gradually it may be that no serious harm will be done to domestic industry, but if it should occur suddenly there might be a backing up of domestic products which would have grave consequences.

The exports of greatest importance are farm products, of which we have a surplus running into large values. A rapid decline in prices for these products would affect the purchasing power of a very large part of the population and react upon all industry. But on the other hand, the world's need for these products is so great that the strongest possible reasons will exist for co-operation on the part of Europe and America in financing this movement.

New low records were made during the month by all the principal exchanges. The table of the principal ones is as follows:

	Unit Value	Rate in cents Dec. 29	Rate in cents Jan. 29	Depreciation in %
Canada	1 00	.9106	.9075	9.25
Germany ...	.2382	.0210	.0135	94 4
Italy	.1930	.0763	.0649	66.4
Belgium	.1930	.0962	.0727	62.4
France	.1930	.0939	.0760	60 7
England	4.8665	3.8000	3.5300	27.4
Switzerland .	.1930	.1802	.1786	7.5
Holland	.4020	.3750	.3875	3 6
Denmark ...	.2680	.1925	.1650	38.4
Norway	.2680	.2050	.1780	33.6
Sweden	.2680	.2150	.1970	26 5
Spain	.1930	.1925	.1850	4.2
Argentine ..	.9648	.9800	.9800	1.6*
Japan	.4985	.5025	.4875	2.2

* Premium. ** About Par.

Foreign Holdings of U. S. Steel Stocks.

The movement of American corporation stocks from Europe to this country since the beginning of the war is illustrated in the case of the United States Steel Corporation. On March 31, 1914, 1,285,636 shares of the common stock, or 25.29 per cent of the entire issue, and 312,311 shares of the preferred stock, or 8.67 per cent of the entire issue were held abroad. On December 31, 1918, 484,190 shares of the common, or 9.52 per cent of the issue, and 140,077 shares of the preferred, or 3.88 per cent of issue, were held abroad; and on December 31, 1919 368,895 shares of common, or 7.26 per cent of the issue, and 138,566 shares of preferred, or 3.84 per cent of the issue were held abroad. It appears that 115,305 shares of common, of the par value of $11,530,500, and 1,500 shares of preferred, of the par value of $151,100 were sent back during the past year. There still is more than $50,000,000 worth, market value, in foreign hands, and the inducement to sell in America increases with every increase of the premium on the dollar over other currencies. This showing suggests that there must be a round sum of American securities still in the tin boxes of Europe.

Gold Movements.

All of the South African gold arriving in London is sold at a premium, most of it being taken to supply remittances to India. That shows how London stands in relation to India.

The production of gold in the United States in the year 1919 is officially estimated by the bureau of the Mint and Geological Survey at $58,488,000, a decline of about $10,000,000 from that of 1918. The sales of gold bars by the United States office at New York in 1919 for use in the arts amounted to $60,062,838 of which $251,337 went to Canada. The total consumption of gold in the arts probably was as much as $65,000,000. This is the first time since the discovery of gold in California that the consumption of gold has exceeded production in this country.

The Canadian government authorized the exportation of $10,000,000 of gold to the United States in December and $10,000,000 more in January, for the purpose of steadying the exchanges, and possibly to facilitate some of its own remittances.

An offering of $25,000,000 of Belgian notes, of which the particulars are given elsewhere, was a notable feature of the month, as they were very well received. Salesmen reported that popular feeling on behalf of Belgium and a disposition to render practical aid was a noticeable factor in the readiness with which these notes were taken.

The European Problem.

The developments of the last month give encouragement that the business world is coming to an understanding of the critical state of society in Europe, and arousing to the

stupendous task of aiding the prostrate peoples of the continent to find subsistence in the months immediately to come and to eventually reconstruct their shattered industries and become self-supporting again.

On January 10th the Secretary of the Treasury addressed a letter to the Chairman of the Ways and Means Committee of the House of Representatives, recommending that the United States Grain Corporation be empowered to purchase, sell and deliver $150,000,000 worth of food and relief supplies on credit to Austria, Poland and in Armenia, for the benefit of populations threatened with starvation. The Secretary intimated that more might be required, in which event he will communicate further. He stated that Great Britain had offered to join the United States in giving relief to Austria, and probably would provide the shipping required. In a supplemental statement before the Committee, Assistant-Secretary Davis stated that Great Britain, France and Italy had already lent Austria $48,000,000.

Call for an International Conference.

On January 15th there appeared a notable communication signed by several hundred leading bankers, men of affairs and publicists, addressed in this country to the United States Government, the United States Chamber of Commerce and the Reparations Commission, and addressed in other countries to the respective governments and the Reparations Commission. The communication recognizes that the existing state of distress and industrial prostration in Europe is a matter which concerns society everywhere, and asks for the calling of a conference to meet at the earliest practicable date, to consider what action may be jointly taken or recommended to aid in the restoration of normal economic conditions. It puts to the fore the necessity for every country to forthwith put into effect a scheme of taxation which will enable it to meet governmental expenditures without further additions to the outstanding paper currency. No country, it plainly says, can be considered worthy of credit which will not do this.

It says that evidently Germany and Austria must bear a heavier burden than the countries which were victorious in the war, but that care will have to be taken "that the burden does not exceed the measure of the highest practicable taxation, and that it does not destroy the power of production, which forms the very source of effective taxation."

The statement continues in terms at once so enlightened, practical and convincing that we give the remainder verbatim:

For the sake of their creditors and for the sake of the world, whose future social and economical development is involved, Germany and Austria must not be rendered bankrupt. If, for instance, upon close examination, the Commission des Reparations finds that, even with the most drastic plan of taxation of property, income, trade and consumption, the sums that these countries will be able to contribute immediately towards the current expenses of their creditors will not reach the obligations now stipulated, then the commission might be expected to take the view that the scope of the annual contribution must be brought within the limits within which solvency can be preserved, even though it might be necessary for that purpose to extend the period of instalments. The load of the burden and the period during which it is to be borne must not, however, exceed certain bounds; it must not bring about so drastic a lowering of the standard of living that a willingness to pay a just debt is converted into a spirit of despair and revolt.

Grave Situation.

"It is also true that amongst the victorious countries there are some whose economic condition is exceedingly grave and which will have to reach the limits of their taxing powers. It appears, therefore, to the undersigned, that the position of these countries, too, should be examined from the same point of view of keeping taxation within the power of endurance, and within a scope that will not be conducive to financial chaos and social unrest.

"When once the expenditure of the various European countries has been brought within their taxable capacity, (which should be a first condition of granting them further assistance), and when the burdens of indebtedness, as between the different nations, have been brought within the limits of endurance, the problem arises as to how these countries are to be furnished with the working capital necessary for them to purchase the imports required for restarting the circle of exchange, to restore their productivity, and to reorganize their currencies.

"The signatories submit that, while much can be done through normal banking channels, the working capital needed is too large in amount and is required too quickly for such channels to be adequate. They are of opinion therefore that a more comprehensive scheme is necessary. It is not a question of affording aid only to a single country, or even a single group of countries which were allied in the war. The interests of the whole of Europe and indeed of the whole world are at stake.

"It is not our intention to suggest in detail the method by which such international co-operation in the grant of credit may be secured. But we allow ourselves the following observations:

"1. The greater part of the funds must necessarily be supplied by those countries, where the trade balance and the exchanges are favorable.

"2. Long term foreign credit, such as is here contemplated, is only desirable in so far as it is absolutely necessary to restore productive processes. It is not a substitute for those efforts and sacrifices on the part of each country, by which alone they can solve their internal problem. It is only by the real economic conditions pressing severely, as they must, on the individual that equilibrium can be restored.

"3. For this reason, and also because of the great demands on capital for their own internal purposes in the lending countries themselves, the credit supplied should be reduced to a minimum absolutely necessary.

"4. Assistance should as far as possible be given in a form which leaves national and international trade free from the restrictive control of governments.

Development of Trade.

"5. Any scheme should encourage to the greatest extent possible the supply of credit and the development of trade through normal channels.

"6. In so far as it proves possible to issue loans to the public in the lending countries, these loans must be on such terms as will attract the real savings of the individual; otherwise inflation would be increased.

"7. The borrowing countries would have to provide the best obtainable security. For this purpose it should be agreed that:

"(a) Such loans should rank in front of all other indebtedness whatsoever whether internal debt, reparation payments or interallied governmental debt.

"(b) Special security should be set aside by the borrowing countries as a guarantee for the payment of interest and amortization, the character of such security varying perhaps from country to country, but including in the case of Germany and the new States the assignment of import and export duties payable on a gold basis, and in the case of States entitled to receipts from Germany, a first charge on such receipts.

"The outlook at present is dark. No greater task is before us now than to devise means by which some measure of hopefulness will re-enter the minds of the masses. The re-establishment of a willingness to work and to save, of incentives to the highest individual effort and of opportunities for every one to enjoy a reasonable share of the fruit of his exertions must be the aim toward which the best minds in all countries should co-operate. Only if we recognize that the time has now come when all countries must help one another can we hope to bring about an atmosphere in which we can look forward to the restoration of normal conditions and to the end of our present evils.

"In conclusion, the signatories desire to reiterate their conviction as to the very grave urgency of these questions in point of time. Every month which passes will aggravate the problem and render its eventual solution increasingly difficult. All the information at their disposal convinces them that very critical days for Europe are now imminent and that no time must be lost if catastrophies are to be averted.

This statement and call for a conference lays he groundwork for international cooperation in the reconstruction of industrial and social order in Europe. It sketches clearly the outlines of the necessary program, and it is significant that there should be practical unanimity among the distinguished leaders of business of all countries upon the general principles to be followed. The sentiments uttered and the aims subscribed to show the constructive purposes which dominate the international business community.

It will be a great thing to have the business forces of the world set themselves to the task of examining the peace treaty, readjusting and supplementing its provisions to promote general prosperity, and reorganizing the productive powers of society.

Views of Sir George Paish.

Sir George Paish, the well-known English economist, has been in this country during the past month, and his interviews and addresses upon the European situation have occasioned much comment. For the most part this comment seems to have been based upon misunderstanding of his mission and proposals.

His general representation of the European situation and the need for outside-help is quite supported by the statements contained in the call for an international conference, of which account is given above. The remedies proposed in this call, so far as they go in detail, are the same as suggested by him. He has advocated assistance only to alleviate immediate suffering and to aid the populations in becoming self-supporting again, under strict terms and international supervision. He has positively stated that the borrowing countries should be required to balance their budgets, and that no loans should be made to cover governmental expenses. His proposals have contemplated nothing but loans to be expended in this country for food, raw materials and machinery, with the distribution of these safe-guarded as effectually as possible.

His idea of joint international obligations was a suggestion intended to afford greater security to the United States, which in the nature of things must be the principal creditor, because it is the principal source of supply. Nowhere else in the world can the things that are needed for Europe be found. America must furnish them or the whole scheme of succoring Europe and reestablishing industry there will have to be abandoned. With this as the premise, Sir George laid down the proposition that instead of granting little dabs of relief here and there over Europe, without doing enough to restore production in any comprehensive way, America could better afford to do enough to secure European society against anarchy, and so make its loans safe; moreover that in doing this America would be entitled to have joint guarantees from all Europe, including Great Britain. One idea behind this suggestion is that all of Europe is involved together, and that help which might be sufficient for one country if it alone was affected may fail unless other countries are aided also. The same idea is expressed in the call for an international conference in the following language:

"It is not a question of affording aid only to a single group of countries which were allied in the war. The interests of the whole of Europe, and indeed of the whole world are at stake.

"It is not our intention to suggest in detail the method by which such international co-operation may be obtained."

It is well undoubtedly that the call stops short of suggesting in detail how the required international cooperation shall be obtained. That is a matter to be dealt with in the conference, but it is clear that whatever the method of settlement may be the bulk of the things to be supplied must come from America. What will a conference do with reference to this fact? Will it simply pass resolutions calling upon America to supply the needed commodities to the several countries on credit? This is the situation to which Sir George was addressing himself when he suggested a joint guaranty, evidenced by bonds made free of taxation in every country party to the agreement, and of course, for mutual protections secured as fully as may be. In such an arrangement the United States as a party would bear its proportion of the defaults with others, but it would have all Europe interested with it in any default.

It is easy to say that the United States had better keep out of such an arrangement and that the United States had better keep out of Europe, but the distinguished signatories of the above call believe that the United States cannot ignore the needs of Europe. It is not necessary to endorse the Paish proposal; perhaps the conference will offer a better one, but it is not preposterous.

The amount of credit which Europe will require is placed much higher by Sir George than by any other estimate but he has named figures for a period of five years, and based his calculations upon the trade balance of the last year and the interest obligations which will be running, but which Europe will not be able to meet until it has recovered the power to export goods. There is room for difference of opinion in regard to the rapidity with which Europe can recover, but interest centers upon what needs to be done at once, the means by which it can be done and the safeguards required for the efforts. There is no disagreement as to the desirability of such a conference as has been called. Nothing that Sir George Paish has said has afforded any basis for the report that he represented the British government or sought a loan for Great Britain.

The Situation in Germany.

We have received from a very competent source in Germany a carefully prepared summary of the financial situation of the German government and central bank, showing the outstanding funded and floating debt, total paper money issues outstanding, and other obligations, supplemented by comments which present the views of a trained financier and economist. The paper is more comprehensive and complete than anything we have seen published outside of Germany, and therefore we give it in full.

The par value of the mark, in which all figures are given, is 23.8 cents, United States money.

I.

From the time of its foundation until the outbreak of the European war the German Empire had not known any serious financial difficulties. The Federal loan raised in connection with the war of 1870/71 was paid off by 1875. At the end of that year the whole of the Empire's debt amounted, apart from minor items, to only about 120 million marks, exclusively in paper money, (Reichskassenscheine) to the issue of which the country had been empowered by Act of Parliament of April 30th, 1874, with the purpose of withdrawing the paper money of the various Federal States, circulating until then. During the following ten years smaller loans were repeatedly raised. Yet at the end of 1886 the whole of the interest paying national debt was not more than 446 million marks. It is only with the beginning of the nineties that the increase of the national debt assumes larger proportions. In 1890 it exceeded the first, in 1895 the second and ten years later the third billion.

The ever increasing financial demands—particularly for the army and navy—made it necessary to raise further big loans in the first decade of the current century. At the end of 1910 the debt of the Empire had risen to over 4.5 billions, while towards the beginning of 1914 it had not come higher than 5 billions amongst which the floating debts were included. With this comparatively small debt the country entered the world war. About 180 millions had to be raised annually for the interest on the debt and 160 millions for its amortization, meaning a total of nearly 250 millions per annum.

At the outbreak of the war the debts of the Federal States amounted to about 17.7 billions, those of the Communal bodies (communities, provinces, etc.) being about 11.9 billions. Therefore, the national debt inclusive of that of the Federal States and Communal bodies totalled about 34.5 billion marks.

In order to form a right opinion of the changes which have taken place in Germany's financial position under the influence of the war one ought to keep in mind the form adopted for covering the expenses of the war. In view of the assumption that the war would only last a short time, the raising of loans was considered the best way of meeting the financial requirements incidental to warfare. Hence by Act of Parliament of August 4th, 1914, war estimates to the amount of 5 billion marks were passed in the first instance, and the same method was adopted as the occasion arose. In this way a total of 139 billion marks were provided. A further credit of 15 billions was proposed by the Government at the beginning of November 1918, but could not be passed by the Reichstag owing to the revolutionary movement.

The credits were used up by floating loans. Requirements keeping within the limits of the estimates passed by Parliament, but which could not be covered by war loans, were met by issuing short term treasury bills.

The various loans sufficed to cover the monetary requirements until the end of 1916. Until that time the floating debt had kept within comparatively narrow bounds. The debts incurred in this manner were regularly paid back from the moneys raised by the next loan. Only during the latter courses of the war floating debts were contracted to an ever increasing extent. Within the compass of the total war debt the floating debt accordingly assumed growing importance. Of the whole credit granted, finally amounting as mentioned above, to a total of 139 billion marks, more than 40 billions had been raised by means of short term treasury bills.

As is apparent from the table hereafter this sum in the meantime has risen to 80 billion marks. There are, moreover, the floating debts of the Federal States to be considered, which amount to 22.5 billion marks.

The total debts being distributed as follows:

	in billion marks:	
The German Empire:		
Consolidated debt	90	
Floating debt	80	170
The Federal States:		
Consolidated debt	17.5	
Floating debt	12.5	30
Communal Bodies:		
Consolidated debt	12.5	
Floating debt	10.	22.5
		222.5

So we see that the public debt of Germany since the beginning of the war has risen from 34.5 billions to 222.5 billion marks. Annually ten billion marks have to be raised merely to pay the interest on this debt. Moreover, there are the pensions for the men disabled in the war and for the next of kin of the killed, items which will for a long period require an amount of about 4.4 billions annually.

The redemption of the floating debt, having the closest possible connection with Germany's currency and credit system, forms one of the most urgent financial

needs. In order to understand this connection, due attention must be paid to the change which has taken place in the German monetary system.

II.

Prior to the outbreak of the war Germany had a thoroughly well organized monetary system. On July 9th, 1871, Germany was able to pass a law relating to the introduction of the gold standard, which was carried into effect and kept up by a far-sighted gold —and discount—policy of the Reichsbank.

The old silver-thaler (three mark coin), remaining legal tender, was gradually withdrawn from circulation. When that process had been finished, the German Empire belonged to the few countries with a genuine gold standard. The German rate of exchange consequently, always kept near the gold par.

The standard was secured by a considerable stock of gold which the Reichsbank had accumulated in the course of decades as a cover for its circulation of notes. Owing to this policy the gold reserve amounted by July 23rd, 1914, to 1536 million marks. Taking the average for a whole year, half of the Reichsbank notes in circulation were approximately covered by gold, the proportion of gold to notes often reaching and in the quieter months exceeding three-quarters of the entire circulation. In addition to the stock kept by the Reichsbank the amount of gold coins in circulation may at the time of the outbreak of the war be estimated at about 2.5 billion marks. Under such conditions the German gold standard enjoyed general confidence, not only at home but all over the world.

Towards the end of June, 1914, the state of the Reichsbank presented a perfectly normal aspect. On June 23rd, 1914, the total circulation of notes amounted to 1805 million marks, which were covered by 1371 million marks of gold and 345 million marks of silver coins. Therefore, the metallic reserve of the circulation was about 95%. Among the other assets figured bills of exchange, checks and advances on securities with a total of 810 million marks. Furthermore, the Reichsbank owned discounted treasury bills to the amount of 263 million marks.

These favorable conditions naturally changed during the war. After receiving at the outbreak of the war 205 million marks in gold from the war fund, and the gold coins in circulation having gradually flown into its coffers, the Reichsbank on October 31st, 1918 had a gold reserve of 2550 million marks at its disposal. From the beginning of the war onward its visible stock of gold had increased by approximately 1200 million marks. As a matter of fact a considerably larger amount in gold coins has found its way into the Reichsbank, which has been obliged, however, to hand over a large sum of gold returning from circulation to neutral countries and partly to the German allies as well.

In conformity with the conditions of the armistice and in order to secure food supplies from abroad the Reichsbank was, furthermore, compelled to give up 1.4 billion marks of its gold reserve. Thus by the end of September, 1919, the gold reserve of the Reichsbank had been reduced to about 1.1 billion marks, considerably smaller a sum than that which it possessed at the outbreak of the war.

On the other hand, the circulation of banknotes which, as mentioned above, on June 23rd, 1914, amounted to about 1.8 billions had risen to 29.8 billion marks by September 30th, 1919. As a consequence of this extraordinary increase in paper currency the proportion of gold to the issue of banknotes to-day is so small as to be hardly worth mentioning.

The change for the worse in the conditions of the Reichsbank is most closely connected with the increase in the floating debt of Germany. For the Reichsbank has been compelled to take up a considerable part of treasury bills. On September 30th, 1919, the assets, comprising bills of exchange, checks and treasury bills, amounted to about 34 billions of which 2 billions at most are likely to consist in bills of exchange and checks. The remaining amount is, therefore, exclusively composed of treasury bills and accordingly is to be regarded as a floating debt to the Reichsbank.

The loan-office notes (Darlehnskassenscheine) called into existence by law of August 4th, 1914, are likewise closely connected with the national debt. Upon loans granted, the loan-office (Darlehnskassen) had on September 30th, 1919, put into circulation notes to the amount of 21.3 billions, of which about 9 billion marks were held by the Reichsbank, 120 million marks being used for other purposes. The remaining 12.2 billions were in circulation. Hence the total of the paper currency issued by the Reichsbank and the loan-offices amounted to about 42 billion marks by the end of September, 1919.

This, however, does not cover yet the total of Germany's paper money being in circulation at present. In addition there are the above mentioned "Reichskassenscheine" the total amount of which was increased to 360 millions during the course of the war, as well as the emergency paper money, circulated by communities and other public bodies. On the whole about 43 billion marks of paper money are likely to be in circulation at present.

The unfavorable change in the German monetary system is strikingly demonstrated by the depreciation of the Reichsmark, which for the time being, reached its lowest level about the middle of September, 1919, when it was valued at 14 pfennigs on the average.

Apart from the fact that the great circulation of paper money has to be regarded as very unfavorable in itself, it has to be noted that contrary to former times a considerable part of the paper currency must be looked upon as tied up. Whereas in times of peace the banknotes and the Reichskassenscheine constituted only a portion of the circulation, conditions have completely changed afterwards. Germany's total criculation may be estimated for the middle of 1914 at approximately 7 billion marks. Of this amount about 2 billions were banknotes and paper money (Reichskassenscheine), 3.7 billions being gold coins and about 1.2 billions silver coins.* To-day the circulation almost exclusively consists in paper. Accordingly a considerable part of the present paper currency serves as a substitute for the metal currency that has been withdrawn from circulation. Moreover, contrary to pre-war times, a very large part of the paper money issued in Germany has fluxed into foreign channels. Belgium alone claims 5.6 billion marks for the paper money withdrawn there from circulation, whilst the amount of German paper currency kept by France is estimated at approximately 4 billion marks. In addition there are huge amounts accumulated in Switzerland. Holland and Scandinavia. Considerable sums have also recently gone to Spain and to North and South America. It is highly probable, therefore, that of the total of 42 billion marks of paper money issued, 15 billion marks are kept outside Germany. To the latter amount must be added another 5 billion marks which are hoarded up by the population. The paper money actually circulating in Germany, therefore, probably does not exceed 22 billion marks.

This outline does not intend to suggest that German financial conditions ought to be regarded as being more favorable than appears warranted in view of the great amount of paper money issued. But under present conditions it may be expected that a considerable portion of the paper money, now passed into foreign hands, is tied up by speculation and that the sums in Belgian and French possession may perhaps be converted into a consolidated debt by means of loans. Hence, a reorganization of the German monetary system seems, after all, easier than the amount of paper money issued might lead to assume. It goes without

*On June 23rd, 1914, of the metallic stock 1306 million marks in gold (bullion and coin) and 325 million marks in silver were kept by the Reichsbank.

saying that such a reorganization would not solve the financial problem it is also necessary to dwell upon extent. Besides an improvement in the state of the Reichsbank may be expected from the decrease of Germany's floating debt. This decrease is to be brought about by the proposed large levy on property (Reichsnotopfor), and to some extent by the issue of the premium loan, now being offered.

III.

In order to get a proper idea of the magnitude of the financial problem it is also necessary to dwell upon the revenue and expenses as provided for in the budget. Nothing definite, however, can be said at present on this subject. While it is possible to estimate with some accuracy a few items all the other figures must be considered as entirely problematic under prevailing circumstances.

The compilation made in the following table should be regarded as an indication only of the scope and bulk of the financial needs of Germany and of the sources out of which the receipts are being expected to flow.

A. EXPENSES:

	in billion marks:
Sinking fund	10.—
Death and disablement fund	4.3
Administration	1.7
Maintenance of the defence forces	1.5
Maintenance of the army of occupation	1.2*
Compensation to officers	0.2
Requirements of the Federal States and Communities	6.5
	25.4

B. RECEIPTS:

Current receipts derived from taxes and duties made up according to the figures of the last year of peace	1.8
Estimated returns of 23 bills, submitted to Parliament 1916-19 (coal-, wine-, brandy-, and traffic-tax, etc.)	5.9
Receipts from the Reichsbank and the loan-offices (Darlehnskassen)	1.—
Turnover tax	3.—
Interest saved or receipts of interest accruing from the levying of property	2.5
Revenue taxes	4.5
Tax collections of the Federal States and Communities	3.—
Income taxes of the State and other taxes under consideration	3.1
	24.8

Not considering the obligations arising from the conditions of peace (except the expenses for the maintenance of the army of occupation) the total receipts according to the above statement appear to be 600 million marks less than the expenses. However, the fact must not be overlooked that the draft of this budget, as indicated above, is only made hypothetically and that it is impossible to foresee, which proportion of the estimates will be reached under prevailing conditions, inasmuch as the "flight of capital" to foreign countries going on since the revolution broke out will probably also influence Germany's taxing power in a very unfavorable sense.

In judging the financial position of Germany, the obligations towards allied nations, occupied territories and neutral countries, incurred since the war, have also to be considered; as, for instance, the obligations arising from the issue of notes in Turkey in connection with the handing over of German treasury bills. These treasury bills, now being in the hands of the Dotte Publique, are redeemable in gold within a period of 12 years. The total amount of this obligation alone largely exceeds the present gold reserve of the Reichsbank. On the other hand in accordance with the conditions of peace Germany's claim against Turkey had to be transferred to the Allies. (Art. 261.) Similar obligations arise from the circulation of paper money in countries which were occupied. Germany, for instance, has guaranteed the redemption of almost 760 million marks of loan-office-notes, circulated by the Darlehnskassen Ost. Furthermore Germany has pledged herself to redeem at par in marks about 800 millions of Polish loan-office notes issued during the German administration.

*The obligations arising from the conditions of peace have for the present only been represented by this one item and, moreover, have been very roughly estimated.

Another obligation exists towards Roumania out of the circulation of lei-notes, issued by the Banca Generala Romana, and out of a balance due to the Banca Nationala Romana by the Reichsbank. The total of this debt may be put down at about 1.3 billion marks. Germany is furthermore indebted to the Ukraine through the circulation of paper money to the extent of 400 million marks. The same applies to the above mentioned outflow of German paper money into Belgium and France, as well as to the short term credits opened to Germany in various forms by neutral countries. For all these obligations Germany or the Reichsbank, on which the country's monetary system rests, are ultimately responsible.

IV.

A strict examination of the economic position of Germany is bound to take also into account the financial obligations imposed upon the country by the conditions of peace. Twenty billion marks in gold have to be paid until May 1921. Of this amount the value of goods delivered by Germany in conformity with the conditions of the armistice must be deducted, however, as well as the values of the work of reconstruction, as provided for by the peace treaty.

The following items will go to Germany's credit:

Supplies delivered under the terms of the armistice.

Mercantile fleet.

Pre-war debts due to Germany on account of foreign commerce and trade, less the amount owed by Germany herself.

Liquidated property.

Debts of Germany's former allies, ceded to allies and associated powers.

Claims arising from the taking over of the State debt of the countries to be ceded (Art. 255-57 of the conditions of peace.)

Value of coal to be furnished by Germany.

On the other hand such food stuffs and raw materials as may in the opinion of her principal creditors, render Germany capable of reparation, are charged to her account. The amount of the first instalment of the indemnity of war cannot be estimated at present. It will have to be fixed in due time by the Commission of Reparation.

By a further proviso of the conditions of peace Germany is compelled to hand over to the allies gold bearer bonds to the value of 40 billion marks, on which an interest of 2½% has to be paid from 1921 to 1926 and of 5% from 1926 onward. These bonds are to be redeemed in 30 years from the latter date at the rate of 1%. A second series of gold bearer bonds to the amount of 40 billion marks has been provided for, in case the Commission of Reparation should feel convinced that Germany can afford to pay the interest on and the redemption of such an additional charge. For the present this latter provision might be regarded as a matter of secondary importance. The war debt payable to Belgium, however, requires immediate attention. The exact amount has not yet been fixed, but the sum in question is likely to be about 10 billion marks.

These various financial obligations will very heavily weigh on Germany as she is at the same time compelled to deliver a great quantity of goods without any com-

pensation, and as her economic strength and taxing power are being greatly reduced by the loss of agricultural and industrial territory. This better than anything else reveals the extent of the financial problem and the difficulties of its solution.

V.

It has to be borne in mind, however, that the German people still possess certain abilities and capacities which will make it fit for great achievements. Moreover, it must be remembered that, although her population severely suffered through the events, having taken place since August 1914, Germany did not completely collapse neither during the war nor under the influence of the revolution. The terror responsible for the destruction of huge values and the breakdown of the entire social order in Russia, could be kept at bay in Germany. This fact is the more noticeable as in Germany the change of system occurred with even greater rapidity than in Russia, where the population for more than a decade had been prepared for a great upheaval. It is true that under the influence of these events a weariness of labor and a general disinclination to work have manifested themselves in Germany, formerly so highly reputed for her laboriousness. This has found a visible expression in many strikes and has put its stamp on the entire economic life of the country. It must, however, be realized that there we have to do with a morbid state of mind, caused by 5 years' malnutrition, which is bound to disappear as soon as the food conditions of the country have been improved. Notwithstanding the continuance of disturbances in the labor market signs of improvement are already apparent. Laborers are beginning to recognize that the system of wages paid by the hour together with a shorter working time brings them disadvantage rather than advantage. The industrious and intelligent workman is quite aware that this deprives him of the chance of securing for himself a larger material gain in accordance with his superior ability. This explains why in many concerns it is just the workman who desires the re-introduction of piece-work. It may, therefore be expected that the old methods will shortly be re-adopted and lead to a considerable increase of production.

For the present, however, insufficient coal production is still a factor seriously arresting the industrial revival. The production of coal in the Saar district which formerly covered almost 7% of Germany's total output, has ceased to be of avail to that country. Furthermore, there were prolonged strikes in the remaining mining districts in spring of this year, followed in October by another strike, though shorter, in Upper Silesia, that brought about a great decrease in the production. Besides the amount of labor done in the coal mines has tremendously fallen off in consequence of the cutting down of the work shifts to 7½ hours and also on account of the fact that thousands of war prisoners, who were formerly occupied in the mines, are not employed any longer. Another factor is the migrating of workmen to other industries offering relatively better wages to them. Thus the first half year of 1919, when compared with the same period of the previous year, shows a decrease in the coal production of Germany (excluding Alsace-Lorraine) of 31.24 million tons. During the last few months, however, the production has decidedly improved.

The output of the mines worked by the Rhenish-Westphalian Coal Syndicate amounted

	in April	May	June	July
to	2.10	5.77	5.55	6.63 million tons

In upper Silesia too, the present daily output exceeds that before the last strike. This development may be valued as a symptom of improvement, although a much larger increase in production is requisite, if the coal famine is to be relieved. This will necessitate the recruiting of additional labor forces. Until now it has not been possible to fill up all the gaps beaten in the ranks of labor, whilst moreover, dwelling houses have to be built for the new workers to be employed. Hence it appears in what vicious circle the whole economic life moves.

So, for instance, various building materials, especially cement and bricks, cannot be produced in sufficient quantities. Of cement about 1-10th only of what is required can be supplied. In the brick industry likewise only 1-10th of the brickyards are kept going for want of fuel. The need of building material in its turn checks the building power, which in addition is curtailed by the high cost of building. The conditions of traffic are similarly unfavorable. The scarcity of coal has also influenced the output of iron. Nevertheless the production of iron has been gradually increasing, as is shown by the following table (in 1000 tons):

1919	Pig Iron	Ingot Iron	Rolling Mill Products	Semi-manufactured Articles
May	525	603	459	48
June	527	643	441	60
July	575	796	555	67
August	569	740	537	68

The shortage of coal and iron further hinders the manufacturing of tools and engines, thereby restricting the repairing and constructing of rolling stock. Railway construction has been hampered, too, by a great decline in the production of labor. Consequently the railroad cars and locomotives sent to the shops for repair are returned with great delay, thus causing a shortage of freight cars to be used for the conveyance of coal.

VI.

However unfavorable the preceding figures may be, yet the increase of production, which can be noticed in the last few months, harbingers the beginning of improvement and, as stated above, the re-adoption of piece-work will largely contribute to a speedy progress of this upward movement.

The revival of foreign trade is of paramount importance for the economic and financial restoration of Germany. Germany needs large quantities of food in order to again make her population able to work and capable of production. Furthermore, an increased import of raw materials is indispensable for a resuscitation of her industries. This is the primary condition for the essential increase of exports, which until now have remained ominously behind the imports. Thus in July, 1919, imports aggregated in round numbers 1.3 million tons to a value of 2 billion marks, whereas only 0.9 million tons were exported to a value of about 564 million marks. When compared with the period from January to July of the previous year, figures are as follows:

	Imports		Exports	
	in 1000 tons	in million marks	in 1000 tons	in million marks
1919	3776	5421	4259	2642
1918	11940	4394	15400	2830

The above comparison gives an idea of the striking fact that until July of the current year the quantity of imports remained 8.2 million tons behind that in the corresponding period of the preceding year. Still their value was greater by over a thousand million marks. The same aspect is shown by the exports. Whereas in comparison to the previous year the quantity was smaller by 11.1 million tons, the difference in value amounted to only 188 million marks to the disadvantage of the current year. This striking difference in the quantity of imports and exports is to be explained by the changes that have taken place within a year. The exchange of goods, during the past year, still very lively between Germany and the countries then allied to her, probably

played a very important part in this connection. The fact that notwithstanding the extraordinary diminution of the quantity in the current year, the value of the imports was still by over a thousand millions more, whilst the value of the exports was only 188 million marks less, is to be accounted for chiefly by the depreciation which the German monetary standard has experienced in the course of the last year.

Apart from this one conclusion may be drawn from the figures, namely, that as already observed above the imports exceed the exports very considerably both in value and in quantity, the more so as the enormous illegitimate import of goods across the Rhine border, naturally not comprised by statistics, has not been included in these figures.

In this connection it has to be borne in mind that the development of the balance of trade in the near future will be unfavorably influenced by the fact that Germany's possession of foreign securities is more and more getting exhausted. The unfavorable condition created by the great surplus of imports against exports will, therefore, make itself all the more severely felt as the credits arising from the sale of foreign securities are decreasing more and more.

VII.

Yet all these factors may in due time be counterbalanced by other more favorable circumstances. Apart from the German's laboriousness it is his high technical ability which has gained for him great fame all over the world. The success attained is due to an extensive scientific training as well as to the indefatigable labor. The very compulsion arising from the economic and financial distress will most decidedly call forth material improvement.

For all that neither German industrial activity nor the development of German technical arts would enable the country to master the great difficulties, if not her geographic situation, which in a political respect has had many drawbacks for Germany, would procure her a great advantage now that the economic life of the whole of Europe must be necessarily restored to a sound condition. Under the present conditions, however, Germany being too badly weakened, both economically and financially, would not be able to make use of the opportunities offered to her by her central position. However, as the economic relations between the United States and Europe appear to call for a radical change, America in order to fulfil her mission of playing the leading part in the restoration of the economic life in Europe, had best start her activities from the center of Europe.

It is quite evident that Germany lends herself best to this purpose, because it is easier to supply the whole of Europe from Germany than from anywhere else, for German industrial activity and the high attainments of German technics can be best made use of for the solution of this great problem. Not only will the German people be rendered capable of willingly and gladly setting to work again, but at the same time it will be placed in a position to fulfil the conditions imposed upon it by the treaty of peace. There is no doubt but that the carrying out of the conditions of peace is a vital question for the majority of the European nations, and for this very reason it is largely in the United States direct interest that Germany as soon as possible should be placed in a position to once more reach the highest degree of her economic development.

In the second place it is—leaving apart the newly formed connecting link, Poland—Germany's neighborhood to Russia and, above all that, the exact knowledge of Russian conditions possessed by Germany, which the United States will be able to successfully avail themselves of, when it comes to the opening up of Russia. In fact this has been one of the American aims for a long time past.

Taking into consideration the huge wealth of Russia as regards products and treasures of the soil, it is evident that by means of co-operation possibilities may be created, through which the tremendous losses of the war can be made good to a considerable extent, if not completely, within a comparatively short space of time. Thus the carrying out of the conditions of peace would be made possible for Germany of course in so far as their fulfilment is at all reasonable. As stated above such a shaping of affairs is not only to the benefit of the European creditors of Germany, but would just as much redound to the advantage of the United States, as the Union has through the war become a world creditor to an extent hitherto unknown and is, therefore, highly interested in the financial recuperation of Europe.

VIII.

The assumption widely prevalent in America that Germany will in a short time recover from the blows of the war and will soon enter anew upon a flourishing period, takes no account of the actual facts. The losses Germany has suffered in consequence of the war are too enormous and the burdens she will have to bear in future are too heavy for her to regain her old position in the international market within a measurable distance of time. Even under the most favorable conditions the process of recovery and recuperation will take a number of decades. Her financial weakening alone will prevent Germany, especially in regard to America, from being able to come forward as a competitor of importance. The start which the United States have won is too considerable and their national resources are too rich for German competition ever to become again an important factor as far as America is concerned. Moreover, as the United States take part in the restoration of European economic life by securing a firm footing in Germany and there take part in the solution of the industrial problems, presenting themselves, this proceeding will offer the surest guarantee that the restoration of the economic and financial position of Germany will be principally to the benefit of America. This footing would naturally be attained by the investment of American capital in Germany. Consequently a restoration of Germany's economic life would in two ways be advantageous to the United States. First as regards the profits on the investment of capital, and secondly owing to the improvement of the German rate of exchange. On account of such a participation it would at the same time be possible to bring the economic development of Germany into harmony with the American economic policy.

Among the reasons speaking for a far-reaching support to be accorded to Germany, the political side needs to be considered as well. In Germany it will have to be decided whether the Bolshevist movement, emanating from Russia, is to be brought to a standstill or to spread further westward. It is in the interest of America that such a dissemination be prevented, as quite apart from a possible spreading of this movement to other continents, political revolutions of that sort would render the sale of American product in Europe still more difficult as already is the case now. In this connection the fact is of special significance that in Germany adherents to the communist idea are still comparatively few in number. The true cause of the labor movement rests upon a basis not at all idealistic, but eminently material. The whole of the population has suffered most severely under a blockade of five years, particularly the working masses in the industrial centers. The love for labor has been lost in consequence. The only means to improve the unsound conditions, prevalent in wide circles of the population, is to provide the people with food. If food is sufficiently supplied, the danger of an extension of the communist movement, aiming at the destruction of

the existing order of society, will not only be neutralized, but the diligence by which the German worker has at all times been characterized, will be displayed once more again.

In spite of the present unfavorable financial and economic situation of Germany, the United States for various reasons have a very far-reaching interest in the restoration of German economic life. Neither the American government nor American financial circles have any doubt but that the United States will be compelled to invest an extensive amount of capital in Europe, if they wish their economic prosperity secured.

To conclude, the economic restoration of Germany is a question of vital concernment for the whole of Europe and of the greatest importance to the United States. The economic healing process of Europe must accordingly proceed from Germany, since only in this way the most difficult financial problem with which the world has ever been confronted, can be solved. The financial risk the United States undertake by investing their capital in Germany must be considered from this point of view. It appears only slight in comparison to the many advantages which a financial policy of that kind holds out.

Railway Earnings.

As a result of the coal strike the earnings of the railroads in the month of November were extremely unfavorable. The Eastern railroads were especially hard hit as they failed to earn operating expenses and taxes by over $4,000,000. For the eleven months ended November 30, 1919, Class 1 railroads earned only 61 per cent of their governmental rental. The Western district roads made relatively the best showing, earning 69 per cent of the rental, while the Southern district roads earned 44 per cent, and the Eastern, 49½ per cent. As it is expected that the December figures will not be good, it seems probable that the Railroad Administration will face a deficit of at least $400,000,000 for the year 1919, as compared with a deficit of $235,000,000 in 1918.

The steady decline in the earning power of the railway industry is strikingly set forth in the following comparison which shows that, notwithstanding a continued increase in operating revenues, net operating income has steadily diminished.

	Total Operating Revenues	Net Operating Income
11 months ended Nov. 30, 1917..	$3,713,000,000	$910,000,000
11 months ended Nov. 30, 1918..	4,473,000,000	662,000,000
11 months ended Nov. 30, 1919..	4,731,000,000	503,000,000

The increase in operating revenues has been 27 per cent, the decrease in operating income has been 53 per cent. The seriousness of the situation is the more apparent when it is realized that 108 out of 165 Class 1 roads are not earning their fixed charges.

A few companies during 1919 have been able to make a better showing than they did in 1918. For example, the Pere Marquette in 1918 earned 91 per cent of its standard return, and for eleven months of 1919 earned 191 per cent. The Michigan Central earned 158 per cent in 1918 and 212 per cent in 1919. On the other hand, the Northern Pacific, which earned 91 per cent of its standard return in 1918, earned only 62 per cent in 1919; and the Southern Railway has dropped from 158 to 52 per cent.

The Director General recently called attention to certain special conditions which have affected the earnings of the roads in the last two years. During 1918 war considerations were paramount. In the first six months of 1919 there was a sudden and abnormally heavy slump in traffic during which large deficits occurred. The next four months were much more favorable and the results were such that a small increase in rates would have avoided any deficit to the Administration; but in November and December a very severe falling off in traffic was accompanied by enormously increased expenses of operation.

A member of the Interstate Commerce Commission has issued a public statement to the effect that if the railroads are granted a general increase of 25 per cent, which he understands will be sought, such increase will cost the consumers of the United States something over four billion dollars and increase the family budget by about $215 a year. The reliability of these figures may well be doubted. Mr. Julius Kruttschnitt, President of the Southern Pacific Company, has prepared statistics indicating conclusively that increased freight rates do not account for the great increases in the cost of living. In 1914 the average value of freight carried by the railroads was $56 a ton and the money spent for transporting the average ton was $2. In 1919 the average ton of freight was worth $119 and the cost of its transportation was $2.80. The cost of the commodity ton thus increased $63, out of which the railroad received only eighty cents additional. In other words, only 1.3 cents out of every dollar of increase in the value of commodities in 1919 was caused by increased freight charges and the responsibility for the remaining 98.7 cents out of every dollar must be sought elsewhere. Relatively, freight rates declined, since 3.6 per cent of the total cost in 1914 was consumed by transportation, whereas in 1919 only 2.4 per cent was so spent.

In any event, since the principle is generally accepted in this country that the railroads should be supported through rates rather than by contributions from the national treasury, an increase in rates cannot be avoided.

Pending Railroad Legislation.

The joint conference committee which is considering the diverse railroad bills which passed the Senate and House last year, is composed of the following: Senators Cummins, Poindexter, Kellogg, Pomerene and Robinson, and Representatives Esch, Hamilton, Winslow, Sims and Barkley. Up to the time of writing, the conference has tentatively agreed on the continuance of the present standard return for a period of six months after the termination of Federal control, and on certain minor points, but no agree-

ment has been reached in regard to the contentious rate and labor provisions.

Unless the conferees produce a bill which affirmatively restores credit, all other provisions are inconsequential. Since Federal control presumptively will terminate at the end of the current month an extension of the standard return is absolutely imperative; but considerably more financial protection is required. In our judgment, the following additional safeguards are necessary to save railroad credit from collapse.

(1) Provide a new Revolving Fund of from 750 million to a billion dollars, to take care of obligations maturing in 1920, and to finance essential additions and betterments. The proposed $300,000,000 is wholly inadequate, for a single large system will require nearly $150,000,000 this year.

(2) Fund for a term of years the indebtedness which the carriers owe the Government for additions, betterments and extensions, and provide each road with working capital on the basis of at least one month's operating expenses—an amount estimated at $353,000,000.

(3) Establish a rule for rate making that will be an assurance to the investor and a guide to the Interstate Commerce Commission.

The necessity for such a rule has been stressed by Commissioner Clark and more recently by Judge Prouty, both of whom have had many years of experience in applying the existing law. Director General Hines also believes it essential. In an address before the Association of the Bar of the City of New York, on January 7th, in discussing the rate question, he spoke in part as follows:

"I believe there must be a definite standard by which the reasonableness of the general rate level can be measured. In the past there has been no appreciable standard. Plausible arguments could be made against any increase that was sought under any conditions. The rate-making body had to take all the responsibility and odium of creating a standard as well as applying it. In my opinion Congress itself should establish a general but workable standard and leave to the rate-making body the application of this standard according to the facts."

The lack of a standard is doubtless responsible for most of the financial troubles of the railroads in the past. In its decision in the Eastern Rate Case of July, 1914, the Interstate Commerce Commission held that the net operating income, which was 5.36 per cent on the investment, was less than that demanded in the public interest and inadequate as a credit base. Yet, the railroads, as a whole, had not earned as much as 5.36 per cent in any year between 1911 and 1916; while the compensation payable during Federal control (being the average earnings of 1915, 1916, 1917) is equal to a return on the property investment of only 5.22 per cent. The actual earnings of the roads today are about 3 per cent.

The deadlock in the conference on the rule for rate-making arises from the fact that the Senators are standing out for a fixed percentage minimum return with a division of the profits in excess of 6 per cent, to which the House conferees are understood to be opposed. That Mr. Hines sympathizes with the Senate bill is evident from his New York address in which he alluded to this question as follows:

"I believe that there will not be a prompt and liberal treatment of rate questions until profits clearly in excess of a fair return are appropriated in part to the public interest."

The railroad problem before Congress is of such importance to the welfare of the country that it would be far better to enact an emergency measure extending Federal control or the Federal guaranties beyond March 1st than to pass hastily legislation that is clearly inadequate.

Needed Facilities.

The need for facilities and for conditions which will make railway investments attractive to investors are very well set forth below:

"The railroads of this country must, in the immediate future, be very largely extended and improved; additional facilities must be provided to meet the increased demands which will be made.

"This will require the outlay of vast sums of capital; and this capital must come mainly, not from the earnings of the railroads, from the investing public. We can provide by legislation the sort of cars which a railroad shall use and the rates which it shall impose; we cannot by legislation force one single dollar of private capital into railroad investment against its will.

"Capital will seek investment in this field for exactly the same reason that it will in any other; namely, upon the expectation of making a profit out of the investment. It is not necessary that the return should be large; but it is necessary that it should be certain; that the people who put their money into this form of investment shall feel confident of fair and honest treatment.

"A want of adequate railway facilities would mean industrial paralysis. Unless they are provided when needed the government will find itself confronted with a demand from all sources—from the merchant, the manufacturer, the farmer—which will force it to meet in some way the necessities of the occasion; and this can only be by either furnishing the capital or providing the railroad itself.

"If we are ever brought face to face with the proposition of government ownership, it will not be by the imposition of excessive charges, for we can deal with that situation, but by the impossibility of obtaining adequate facilities.

"The possibility of such an emergency is by no means fanciful."

It might be easily imagined that the foregoing statement was written in 1920. As a matter of fact, it is an extract from an address made in 1909 at Yale University by Judge Prouty, then a member of the Interstate Commerce Commission. The inadequacy of railway facilities is far more serious today than it was ten years ago. The Cleveland Chamber of Commerce telegraphed to the Ohio Senators at Washington recently that "industrial production is being curtailed here as a result of the shortage of box cars." The assistance of the Senators was asked in order that the supply might be doubled. The *Iron Age* of January 22nd, writes: "The car shortage, which has for weeks been a checking factor in the movement of fuel to iron and steel plants, has now, temporarily at

least, displaced low unit labor output as the chief obstacle in accelerating production. Slow headway is being made in shipping iron from stockyard piles, and finished products are beginning to clog up rolling mills." Similar complaints can be found all over the country, but they should surprise no one familiar with the facts.

Additions and Betterments.

During the ten years ended in 1915, the increase in the freight traffic of the country was 61 per cent, while the increase in the number of freight cars in service was 36 per cent. Since 1915 there has been a further increase in freight traffic of 57 per cent, and an increase in freight cars available of only 5 per cent. Since 1915 the increase in passenger business has been 32 per cent and there has been practically no increase in the number of passenger cars. In spite of the enormous traffic to be moved the number of locomotives in service today remains practically unchanged since 1915.

Owing to the difficulty of raising money, expenditures for additions and betterments on the railroads fell from $808,000,000 in 1911 to $268,000,000 in 1916. The Division of Capital Expenditures of the Railroad Administration has authorized since January, 1918, $724,000,000 for additions, betterments and extensions to the railway plant and $370,000,000 for equipment. The equipment ordered has been put in service, but the program of additions and betterments has been interrupted and only $474,000,000 was expended up to September 30th last.

The *Railway Age*, in its issue of January 2nd, has made a very careful survey of the deficiencies of the railroads, and estimates that a total investment of $6,010,000,000 is required in the next three years to provide the facilities which the country needs. Included in this program are 13,000 locomotives, 712,000 freight cars, 24,500 passenger cars and 30,000 miles of sidings and yard tracks, together with improved shop facilities, new terminals, etc.

Vital as these demands are we do not think that the money can be secured in any such quantity. Railroad credit has been so seriously hurt that, even with the most favorable legislation, it will be sometime before the investor will again place his funds in railroad securities as unhesitatingly as formerly. Then there is the extremely grave problem arising from the present income tax law which makes it improbable that the large private investor will place his money in taxable securities, so that one of the very important reservoirs of capital is definitely closed to railroad borrowers.

Cost of Capital.

One of the railroads which was reorganized about 1898 issued at that time $126,000,000 of 3½ per cent bonds, all of which mature within the next five years. It will be impossible for this railroad company to refinance at any such low rate, and this situation is true of all railroads which have low interest rate bonds maturing in the next few years. The steady advance in the cost of capital to a strong railroad like the Pennsylvania is illustrated in the following table, which shows the prices at which new offerings of its bonds have been sold to the public during the past ten years.

	Date of Issue	Price	Yield
Consol Mortgage 4s	April, 1908	96	4.25%
Consol Mortgage 4½s	January, 1915	103¾	4.30%
General Mortgage 4½s	May, 1915	98½	4.58%
General Mortgage 4½s	April, 1917	97½	4.65%
General Mortgage 5s	December, 1918	99¾	5.05%

The General Mortgage 5s are now selling on about a 5.65 per cent basis.

Equipment trust obligations have always been a popular type of investment, but here again, the rialroads are forced to pay more for the equipment as well as for the money. For example, before the war cars could be purchased at $1,000 each and the money borrowed at 4½ per cent. Today, the same cars are costing $3,000 each and the Government is taking 6 per cent equipment obligations from the companies in reimbursement. Because of the rise in the interest rate of 33⅓ per cent and of 200 per cent in the price of the commodity, there is a 300 per cent increase in annual interest charges alone.

Valuations.

Oral arguments were presented before the Interstate Commerce Commission on January 7th upon the question of the final value which should be found for the railroads of the country. Up to the present date the Commission has not yet found a final figure for the value of any railroad. In the view of Judge Prouty, Chief of the Division of Valuation, the final value of a railroad should be the cost of reproduction less depreciation, plus appreciation and "going concern" value. This is the first time that it has been officially suggested that allowance be made for "going concern" value. Judge Prouty's recommendation to the Commission was that 7 or 8 per cent of the cost of reproduction, exclusive of land and equipment, should be added to the value as found in the inventories to cover this item.

The Supreme Court has recognized the justice of allowance for going concern value in more than one case, the following being quoted from a recent opinion:

> "That there is an element of value in an assembled and established plant doing business and earning money over one not thus advanced is self-evident. This element of value is a property right and should be considered in determining the value of the property upon which the owner has a right to make a fair return when the same is privately owned although dedicated to the public use."

That consideration must be given not only to the bare bones of the property, but also to its business seems to be in accord with common sense because it is unquestionably true that property is

worth very much more after it has developed a business than when it is just ready to commence operations.

New York, New Haven and Hartford.

We have on previous occasions referred to the results of some of the tentative valuations reported by the Commission. The work of the Division of Valuation is proceeding rapidly and it is probable that before this year is out, tentative valuations will have been published for many of the leading systems. A press despatch from Boston is authority for the statement that a tentative valuation of the New York, New Haven & Hartford, as of June 30, 1914, with inventories as of June 30, 1915, shows a cost of reproduction new of $248,596,757. No consideration is given in these figures to values of land, which will be reported later. The cost of reproduction less depreciation is stated as $192,147,034. The annual report of the railroad company for the year ended June 30, 1915, gives net book cost of road and equipment at $191,762,979. It will thus be noticed that, even with the land values omitted, which, in the case of a road like the New Haven, are bound to be of great importance, the property investment account is less than the Government's figures of depreciated value. For the entire New Haven System it is reported that the cost of reproduction new is $345,000,000 and the cost of reproduction less depreciation, $272,000,000. Of the $157,000,000 New Haven stock outstanding, $146,200,000, or 82 per cent, has been sold to stockholders since 1900 at prices realizing premiums in excess of $19,000,000.

The old delusion that the property investment accounts of the railroads are grossly overstated has unquestionably hampered the work of the Conference Committee in Washington who have been trying to harmonize the Cummins and Esch Bills. In an address delivered in Detroit, on January 15th, Mr. Samuel Rea, President of the Pennsylvania Railroad System, said: "Can there be any doubt today that the real property investment for all the railroads exceeds their original cost or their capitalized cost, and that the property investment as stated is materially below the present actual value? I have none." Mr. Rea proceeds to call attention to the fact that even if the capitalization was overstated it should not be forgotten that the gross investment aggregates $24,281,000,000, and the securities, $21,249,000,000, so that the railroads' property investment exceeds by over $3,000,000,000 the issued railroad capital.

Bond Market.

Following the general selling during the close of the year to establish tax losses, the bond market, relieved of this pressure, showed signs of recovery during the early days of January and higher prices were recorded in numerous issues by the end of the first week. Liberty and Victory bonds shared in this advance in a substantial way and the 3½ per cent issue again sold at a premium. Foreign Governments and utilities showed improvement and rails registered the largest gain. Second grade railroad issues such as Baltimore & Ohio and St. Pauls advanced from three to five points. The volume of bond business, however, contracted perceptibly and after this early improvement prices declined and the market developed a waiting attitude until the middle of the month, when the new Belgian Loan was offered on a 7 per cent basis, with an attractive conversion which promises a substantial profit in exchange. The success of this issue resulted in a number of new offerings but the general market continued extremely quiet and although dealers have reported a wide distribution of the new issues to private investors the volume of business remained comparatively small. This is due to the fact that the institutions have not been in the market because of tight money and the advance in rates of the Federal Reserve Banks, and the large private investors are restricting their purchases to tax exempt municipals, with the result that new municipal issues were well absorbed though prices during the closing days declined. The combined average of forty active corporate issues as compiled by the Wall Street Journal on January 24 was 79.37 compared with 78.66 on December 24, and 85.41 on January 24, 1919.

Government and Liberty Issues.

The prices of all the Liberty issues showed an average advance of 1⅛ points during the first week of the month. The market later reacted, and the middle of the month found this advance entirely absorbed and considerable liquidation by large institutions was reported. National banks have been in the market for large blocks of Government 2s of 1930 to meet the currency demand and as a result this issue sold as high as 100¾, its record quotation since the passage of the Federal Reserve Act. At present prices the Third Liberty 4¼s yield about 5.20 per cent and the Fourth 4¼s, 4.95 per cent, while the Victory 4¾s yield about 5.15 per cent.

Municipal Market.

At the close of 1919 municipal bonds were selling at lower prices than at any time during the year and materially below the prevailing figures at the close of 1918. In this connection it is interesting to note that the average market value expressed in "basis" of the bonds of twenty large cities declined from a yield of 3.92 per cent in January, 1917, to a yield of 4.56 per cent in January, 1920. Among the important offerings of the month was a total of $14,247,000 City of Chicago Bonds on a 4¾ per cent basis, of which $11,900,000 were direct city obligations bearing 4 per cent interest, with an average maturity of eight years, and $2,347,000 were Sanitary District 4 per cent Bonds with an average maturity of twelve and seven-eighths years; $5,000,000 State of Louisi-

ana Port Commission 5 per cent Bonds on a 5 per cent basis; \$4,800,000 Allegheny County, Pa., 4½ per cent Serial Bonds on a 4¼ per cent basis; \$4,340,000 Miami Conservancy District of Ohio 5½ per cent Bonds on a 5 per cent basis. The City of Philadelphia sold \$3,000,000 4¼ per cent Bonds, of which \$2,000,000 were taken by the City of Philadelphia Sinking Funds, the balance being offered on a 4.20 per cent basis.

Offerings of Canadian bonds in this market continued in volume as in the preceding month, \$2,000,000 City of Toronto 4½s being offered on a 5.70 per cent basis, while the Provinces of Ontario, Manitoba, Saskatchewan and British Columbia offered a total of \$12,950,000 at prices ranging from a 6.50 per cent to a 6.60 per cent basis.

Dealers who have purchased these new issues which were offered during the month report fairly prompt sales and a continued demand, although prices have eased off somewhat; odd lots in the trading market can now be obtained at considerably lower prices than were ruling earlier in the month. There are substantial amounts of new municipal issues proposed for the coming months but it is expected that fairly firm prices will prevail as long as present income tax rates make the tax exempt issues attractive to investors with large incomes. New York City issues have been ruling on about a 4½ per cent basis, with New York State bonds on a 4 per cent basis.

Foreign Government and Corporate Issues.

The outstanding offering of the month was \$25,000,000 Kingdom of Belgium 6 per cent External Gold Notes maturing in one or five years at the option of the purchaser. These notes are convertible into Belgian francs at the rate of 11 francs to the dollar. Upon conversion above this rate the holder is to receive one-half the profit, the balance being retained for the account of the Belgian Government. Should exchange return to par—5.18⅛ francs per dollar—the holder of a thousand-dollar note would receive \$1,561.50. These notes were offered by a nation-wide syndicate and it is reported that subscriptions were received for about twice the amount offered. The Consolidated Gas Company of New York offered \$25,000,000 Five-Year 7 per cent Convertible Gold Bonds at par and interest. There were also offered \$15,000,000 Kennecott Copper Corp. Ten-year 7 per cent Secured Bonds yielding 7⅛ per-cent, \$12,500,000 Philadelphia Electric Two-year 6 per cent Notes yielding 7¼ per cent, and \$7,500,000 United Gas Improvement One-year 6 per cent Notes yielding 7 per cent.

Among the larger preferred stock issues were \$12.000,000 Union Tank Car Company 7 per cent Preferred at par and \$10,000,000 R. J. Reynolds Tobacco Company 7 per cent Preferred at par. The General Motors Corporation is offering to holders of the 6 per cent Debenture and Preferred Stocks a new issue of 7 per cent Debenture Stocks at par with the right to subscribe to double the amount of their present holdings and present their 6 per cent Debenture Stock at par in payment for 50 per cent of their subscription. The market on preferred stocks as a whole was somewhat less active and the major portion of the new corporate financing for the month took the form of fixed maturity obligations.

New Financing During 1919.

During 1919 new financing by American states and municipalities is reported at over \$750,000,000 compared with about \$262,000,000 for 1918, while the annual issuance of municipal bonds in previous years ranged from \$350,000,000 to \$500,000,000. Foreign dollar loans issued in the United States during 1919 were about \$610,000,000, the only issues during 1918 being a total of about \$6,600,000 provincial, corporation and railroad loans of Canada. Public utility financing is reported at over \$590,000,000 compared with \$451,000,000 in 1918. Industrial financing was reported at over \$2,588,000,000 as compared with \$927,000,000 in 1918. Railroad financing was reported at over \$332,000,000 compared with \$237,000,000 in 1918. It is difficult to obtain accurate information concerning the issuance of these various classes of securities but the above estimates, which have appeared in the Journal of Commerce and the Wall Street Journal, afford an index from which we can gain an approximate idea of the volume of flotations, which in 1919 were estimated at \$4,870,000,000, compared with \$1,883,600,000 in 1918.

The Food Outlook.

Nothing would do so much to relax the tension in the industrial situation as a good all-around crop of food-stuffs this coming season. The reduction of about 25 per cent in acreage of winter wheat, together with reports that much of the crop has been uncovered during the cold weather and that it did not enter the winter in the best condition, is not reassuring as to the supply of that grain. It is true that the acreage last year was larger than usual, under the stimulus of the government guarantee, but the present area is below the ten-year average. The reduction may be made good by the acreage in spring wheat, and it is to be hoped that this will be the case.

The United States Grain Corporation reports that wheat receipts on primary markets from June 27, 1919 to January 2, 1920, aggregated 653,682,000 bushels, and estimate the remaining amount in the country of 251,069,000 bushels. Exports in that time were 33,000,000 bushels lower than in the corresponding period of last year. Mr. Barnes predicts a considerable carryover into the new crop year, but

other well-informed people think there will be no carry-over if Europe can find the means of making the purchases it would like to. From present appearances none of the billion dollars provided to cover the possible loss to the Treasury under the wheat guaranty will be required.

The total exports by weight of pork products (bacon, ham, shoulders and lard) dressed beef and dairy products for eleven months of the year 1919 are shown below.

	Pork Products (Pounds)	Dressed Beef (Pounds)	Dairy Products *(Pounds)
January	193,696,000	17,436,000	45,241,000
February	233,097,000	13,730,000	53,127,000
March	334,037,000	14,651,000	52,832,000
April	337,940,000	21,640,000	102,575,000
May	174,472,000	14,873,000	77,147,000
June	383,624,000	15,212,000	115,647,000
July	233,306,000	8,681,000	65,146,000
August	173,268,000	8,075,000	68,207,000
September	112,349,000	7,286,000	63,946,000
October	110,569,000	31,178,000	91,719,000
November	124,238,000	15,694,000	70,703,000
Total	2,410,596,000	168,456,000	806,290,000

*Of this amount 30,797,000 pounds cover butter exports and 775,493,000 pounds cover condensed milk exports.

Food Drafts.

A new plan making it possible for those in this country to help supply foods to relatives or friends they may have in the section of Europe most affected by the food shortage, has been announced by the American Relief Administration, of which Mr. Herbert Hoover is chairman. The plan, which comprehends the purchase of "Food Drafts" in this country, which will be honored, not by cash but by actual food when presented in certain European cities, seems eminently sound in view of conditions generally. Mr. Hoover, in a letter to this bank, outlines the plan as follows:

American Relief Warehouses, established in Warsaw, Hamburg, Vienna, Budapest and Prague, are now being stocked with the following commodities: Flour, bacon, beans, canned milk, corned beef, lard and cotton seed oil. We have arranged with the American Bankers' Association to circularize immediately their twenty-two thousand banks in America, requesting the assistance of each bank in selling Food Drafts in denominations of ten and fifty dollars to customers desiring to help individuals and friends in Poland, Germany, Austria, Hungary, and Czecho-Slovakia. The purchaser receives a Food Draft to be mailed to the person he desires to assist in one of the above named countries, who will be entitled to receive upon presentation of this Food Draft at nearest central warehouse the food designated on the Draft of an equivalent value to the cost of the Food Drafts. There are two ten and two fifty dollar Food Drafts, designated to meet Christian requirements and Jewish requirements. This plan has been presented to and approved by the State Department, Federal Reserve Board and the United States Treasury, and also by each of the European countries concerned. The European Governments will hold all contents of American Relief Warehouses free of requisition and will assist in transportation and entry of all foods. Should any profit accrue from the operations, it will be turned over to the Children's Fund.

It is very desirable that bankers generally should co-operate in making the "Food Draft" plan possible.

Cooperation Among Farmers.

The national development of co-operative effort among producers is exemplified in the gradual spread of such organizations in the northwest. The Northwestern National Bank, of Minneapolis, in a recent number of its monthly review gave some interesting figures upon this subject. It says that Minnesota leads all the states in co-operative associations among the farmers, and that the volume of business handled by them is now running over $200,000,000 per year. It estimates that there are 4,000 farmers' associations,—business, social and educational—in Minnesota, 3,000 in Wisconsin and 1,000 in Montana.

The article says:

Referring only to the strictly business organizations in Minnesota, there were 614 co-operative creameries in 1914 when the last comprehensive report was made, which was not far from double the number in any other state, and nearly one-third the total number in the United States. Co-operative creameries constituted 72 per cent of all the creameries in Minnesota, and it was found that 42 per cent of all the farmers of the state were patrons of these creameries. Furthermore it was found that one farmer out of every five in the state was a member of a farmers' elevator company. The formation of live stock shipping associations was the most important development in co-operative marketing in 1914, and in this development Minnesota also was by far the leading state in the Union. This movement began with us in 1908 and, especially since 1911, has spread rapidly. In 1914, 12 per cent of the value of all live stock marketed in this state was sold by these get-together selling associations. There is every reason to believe that this percentage has been much increased during the past five years, since the shipping associations which numbered 115 in 1914 have now grown to approximately 450.

The increase in the number of these mutual business organizations in Minnesota is shown in the following table, some of the figures being estimated, but considered nevertheless to be quite accurate, erring, if at all, on the conservative side:

	1914	1919
Creameries	614	622
Elevators	270	296
Stock Shipping Associations	115	450
Stores	120	102
Fire Insurance Companies	154	161
Telephone Companies	600	950
Cheese Factories	34	36
Potato Warehouses	20	40
Miscellaneous	86	200
	2013	2857

The number of miscellaneous associations is remarkable, and shows that farmers are branching out rapidly in the less cultivated fields of co-operative business. It will be noticed that the only decrease to be dis-

cerned in this list occurs in the number of co-operative stores. The reason that the business of the purchase and sale of miscellaneous supplies by farmers does not always thrive is doubtless because of the lack of skilled administration. Merchandising is a specialized business requiring training and adaptability to be successful, just as these essentials are required in banking or farming.

Many farmers' marketing associations, however, secure wholesale supplies along a few broad lines for distribution to members of the organizations, and this without doubt often to the detriment of the business of local dealers. In a recent address made by the managing director of the Agricultural Publishers' Association at a meeting of the National Implement and Vehicle Association, it was stated that in Iowa there were something like 400 co-operative elevator companies, a goodly number of which were handling merchandise in considerable quantities. "They are business organizations," says Mr. Frank B. White, "and whether we like it or not, they are with us and cannot be brushed aside easily. We must recognize them as a factor in Iowa business." 362 of these Iowa elevator companies, according to the figures presented by Mr. White, are distributors of coal; 291 are dealers in feed; 234 in twine; 209, salt; 206, seeds; 205, posts; many of them handle gates, wire, flour, cement, lumber, brick—and so forth to a few dealing in automobile accessories, sacks, cupolas, clothing. "The farmer and business man must like each other," the speaker asserted in a plea for better co-operation and undertanding, "and unless they do like each other they will not do business together pleasantly or profitably, much less work together for the benefit of the whole community."

Professor A. W. McKerrow, of the University of Minnesota, who is Secretary of the Minnesota-Central Co-operative Live-Stock Shippers' Association, in a recent statement said that in 1918 seventy per cent. of the live-stock shipped by Minnesota farmers to the South St. Paul stock yards were sold through the co-operative association, and he estimates that the savings to the farmers aggregated $2,500,000.

A Normal Development.

This is evidently a normal development, and while some features of it may not be welcomed by dealers and agencies for whom it brings new competition, intelligent business-men recognize that it is a perfectly legitimate movement, and will succeed or fail on the results which are produced. If the farmers get better returns or are better satisfied by marketing through their own organizations, they have reason enough for following the policy. Such a development is a matter of business, in no way related to politics, involving no controversies, and meeting with no opposition except such as may arise naturally from business competition. The latter is not undesirable, for the competitive test is the best spur to efficiency. The community as a whole is interested in the perfection of business methods.

These mutual, or joint stock, organizations show the course of sound development, as compared with the political organizations which seek to use the credit of the state for carrying on all sorts of enterprises. In the former, the thrifty, substantial members of the community, who actually contribute in capital or business to the success of the associations, are in control of them. There is no limit to development under these conditions, for it will go on cautiously and no faster or farther than as its success is demonstrated. On the other hand, where the political organization is used, political methods instead of business methods prevail. The management is in hands of political officials and good talkers, elected by popular vote, and the capital is provided by taxation. Under these conditions the recent developments in the banking situation in North Dakota are an example of the results to be expected.

Cooperative Purchasing Organizations.

The labor organizations are showing a new interest in the possibility of reducing living costs by means of cooperative stores and a system of distribution for agricultural products direct from the farmers to consumers. The statement of principles and purposes recently issued by the Federation of Labor mentioned the Rochdale cooperative stores of England as a model enterprise and the officials of the railway orders have indicated that steps would be taken for the establishment of an organization in which wage-earners and farmers would be interested to their mutual advantage.

Every constructive movement of this kind is to be encouraged in cautious development. There is no question that the cost of handling farm products between producer and consumer can be greatly reduced and much waste eliminated by proper organization, but it cannot be done unless the consumer takes an interest in saving and is willing to take some pains to accomplish it. The experience of the Interborough Company, of New York, which tried the experiment of selling groceries to its employees at net cost, bearing the expense of conducting the stores from its own treasury, illustrates the difficulties. That was a well-meant effort on the part of an employer but it failed. Perhaps stores conducted by the labor organizations would fare better; by all means let them be tried. They will either be a success and save money to the consumer or they will demonstrate that the middleman renders a service which is indispensible.

The less of mystery, ignorance and misrepresentation there is in the business world the better. If the farmers and labor organizations wish to join in any business operations for mutual benefit the way is open for them to do so, and if they can serve themselves and the community more economically than is being done under existing methods they will have made a demonstration of great public value. If they believe that they are being exploited this is the logical thing to do. Society

is always seeking the most economical methods for satisfying its wants, and every new achievement is to be welcomed.

Silver.

The silver market has continued to fluctuate violently, ranging from 1.30 to $1.39 per ounce, although probably few sales have been made at the latter figure. This is for the newly mined silver. The Treasury has sold in all $10,000,000 from the general fund for the China exchanges. The demand from that quarter remains strong, with no prospect as yet of falling away.

The bureau of the Mint and Geological Survey estimate the silver production of the United States in 1919 at 55,285,000 fine ounces, against 67,800,000 ounces in 1918. The decline was surprising in view of the higher price, but most of the silver produced in the United States is a by-product from copper and lead ore, the output of which was lower.

Handy & Harmon, silver brokers, estimate the world's production and distribution of silver in 1919 as follows:

PRODUCTION.

	Ounces
United States	55,000,000
Mexico	75,000,000
Canada	14,000,000
South America, Central America and West Indies	19,000,000
Europe	7,000,000
Australia	10,000,000
Asia and Africa	10,000,000
	190,000,000

DISTRIBUTION.

	Ounces
Home consumption in the Arts	25,000,000
United States Government purchases	4,000,000
Mexican Government purchases	3,000,000
England and Continental requirements	25,000,000
Shipments to India	39,000,000
Shipments to China and the Far East	65,000,000
Origin from various sources, destination unknown	29,000,000
	190,000,000

As to the future little can be confidently predicted except that so long as the balance of trade is in favor of Asia in the present volume, the demand for silver will be sustained. Prices have risen in China and in the ports wages have risen and more silver is required for the currency. There has been a large movement of Chinese coin into Manchuria to take the place of Russian paper money.

Second Pan-American Conference.

The Second Pan-American Financial Conference, which was held in Washington January 19-24, brought together a distinguished body of men representing nearly all of the countries of this hemisphere. In several instances delegations were headed by public ministers of finance, and as a rule the delegates were men of leading importance in their countries. The visit of these influential gentlemen to the United States is an event of the first importance, and good results will certainly flow from it. All of the countries to the South of us have great possibilities of development and afford inviting fields for investment. Naturally in view of conditions in Europe they are looking toward the United States, and the leaders in finance in this country are sympathetic and interested. Investments, however, can be made only as capital accumulations are available and the demands upon the capital fund at present are larger than can be met. The whole world now is feeling the loss of the capital which was expended upon the war. All countries are behind with development work, the United States included. Europe is sorely needing America's help in reconstruction, and its wants are probably more pressing than any other. It is only a question of time, however, until the flow of capital southward from the United States will be largely increased.

Branches of The National City Bank.

This bank opened four new foreign branches during the month of January. The banking houses at Bogota and Barranquilla, Colombia, were opened the first day of the year. That at Cape Town, South Africa, was opened January 15, and is the first American bank to be established in South Africa. The Antwerp, Belgium, branch of the bank was opened January 21.

The National City Bank now has a total of 51 branches; the International Banking Corporation (owned by the City Bank), has 28 branches.

Discount Rates Approved by Federal Reserve Board up to January 29, 1920.

Federal Reserve Banks	Discounted bills maturing within 90 days (including member banks' 15-day collateral notes) secured by			Bankers acceptances discounted for member banks	Trade acceptances maturing within 90 days	Agricultural and live stock paper maturing 91 to 180 days
	Treasury certificates of indebtedness	Liberty bonds and Victory notes	Otherwise secured and unsecured			
Boston	4¾	5½	6	5	6	6
New York	4¾	5½	6	5	6	6
Philadelphia	4¾	5½	6	5	6	6
Cleveland	4¾	5½	6	5	6	6
Richmond	4¾	5½	6	5	6	6
Atlanta	4¾	5½	6	5	6	6
Chicago	4¾	5½	6	5	6	6
St. Louis	4¾	5½	6	5	6	6
Minneapolis	4¾	5½	6	5	5½	6
Kansas City	4¾	5½	6	5	6	6
Dallas	4½	5	5	....	5	5¼
San Francisco	4¾	5½	6	5	6	6

Note—Rate on paper secured by War Finance Corporation bonds 1 per cent. higher than the rate on commercial paper shown in column 3.

THE NATIONAL CITY BANK OF NEW YORK

1920

Economic Conditions Governmental Finance United States Securities

NEW YORK, MARCH, 1920.

General Business Conditions.

INDUSTRY and trade have gone on during the second month of the year about as in recent months. Bank clearings, outside of New York, as reported by Bradstreets and the Commercial and Financial Chronicle, are running about 25 per cent. above what they were a year ago with New York clearings somewhat higher, and although trade was a little unsettled in February last year clearings then were about twelve per cent. above February, 1918.

Among merchants there is a note of misgiving about commitments for goods which they will have to sell next fall at higher prices, but this is prompted by a realization that the price level is very high, rather than by any evidence which they see of a probable decline. They have to go ahead with purchases if they want to stay in business, and in many lines must answer promptly or goods will be allotted elsewhere.

In industrial circles there is general confidence in the maintenance of activity. The amount of building in sight in all parts of the country, the return of the railroads to private management, and their evident need for equipment, the demand for all kinds of basic materials and industrial equipment, the unheard-of demand for labor, and the enormous consumption of goods in personal and household use, altogether make up a situation which to the average business man seems to give all the assurance he needs for some time to come. He is influenced much more by these conditions which he can see and which he is in touch with constantly than by any forecasts about our foreign relations. Furthermore, it must be said that up to this time he has been nearer right in ignoring foreign relations than those who have maintained that our export trade would have to decline heavily and that the domestic situation would be seriously affected thereby.

Nevertheless, our foreign trade relations and the banking situation are properly matters of grave concern. The trade of the world is unbalanced, and, as a result of the high prices, in such enormous volume that banking and monetary systems are taxed to the utmost to accomplish the settlements. The fluctuations of exchange and the movements of gold present questions of great perplexity, outside of all precedent, and having important bearing upon conditions at home.

Declines in Agricultural Products.

It has been evident for many months that the declining value of European currencies as compared with the money of this country was a growing obstacle to our exports to those countries. It is true that the total volume of exports has kept up in a remarkable manner, but there has been a falling off of in some of the commodities which might seem to be most needed in Europe, notably meat and grain. The farmer has suffered in the value of these products, and is protesting vigorously that his products are declining alone. The reports of the big packing firms for the last year all show profits below normal, supporting their claim that the declines in live stock have been promptly passed on to meat products at wholesale, but either they have not reached retail prices or the changes are unnoticed, for the demand for higher wages in the industrial centers is unabated.

In view of this situation there is a strong argument against the efforts to continue the round of advancing wages and industrial costs. Higher wages in the cities will tend to increase the movement of labor away from the farms, and will be fruitless of benefits to the wage-earners if farm production declines. We will have an unbalanced and unfair situation if farm products decline and manufactured goods remain at war prices or advance, and in the nature of things this cannot be permanent. The farmer is one of the chief customers of the manufacturing industries and his buying power is in what he produces. He cannot spend more than he gets.

The Increase of Industrial Equipment.

Save as it is embarrassed for lack of railway service the iron and steel industry is operating close to capacity, and with a production much in excess of what it was before the war. This is to be regarded as a favorable sign, for iron and steel for the most part enter into articles of utility, and production at this rate should mean an im-

portant increase in the industrial capacity of the country. Much of it is going to make good the losses or deficit of the war time, but this is none the less a gain, and as in the case of shipping it is but a question of time until the losses will be made good and only the normal rate of construction will be required. The builders of all electrical equipment are turning out machinery of this type on a scale never before equalled. Furthermore, the high wage rates are stimulating investments in labor-saving machinery, but there is only a limited amount of capital available for investment and construction costs are so high that it does not go as far as in ordinary times.

Whether the automobile is regarded as a utility or a luxury, and it falls in both classes, it is difficult to believe that it can continue permanently to absorb capital at the present rate. All of the leading producers are enlarging their capacity and the industry is a very important factor in the consumption of steel, cotton, leather and other materials, not to mention labor. The vast production of cars, like the enormous increase in the production of silk goods, is a symptom of the time, an evidence of the widespread distribution of purchasing power. The rich and so-called favored classes are an insignificant factor in the consumption of this great outpouring stream of consumable goods. The consumption of the masses is upon a scale never seen before. It is common testimony that they are buying goods of higher quality than ever before. Even in so necessary an article as woolen goods, despite the high prices, the coarser qualities although serviceable are not in demand.

The center of gravity for automobiles is in Kansas, where it is said they are numerous enough for the entire population of the state to go joy riding at one time.

The Iron Trade.

The Matthew Addy Company, of Cincinnati, well known in the iron trade, in their trade circular of the last of January described the situation in iron as follows:

> Not even in the rush of the war was there such a demand for iron as today. More iron is needed than is being made. There is a definite shortage of coke and labor and railroad transportation. We do not seem to have facilities adequate to the enormous and multiplying call that is coming from every direction of sheets, plates, castings of all kinds—in fact, everything made of iron and steel. The principal increased demand comes from the makers of automobiles, trucks and agricultural machinery. These things are not wanted in any ordinary numbers, but by the hundreds of thousands. Every farmer wants an automobile, and if he is progressive and up to date he wants a motor plow as well; every mercantile house wants to haul its goods in trucks—the horse is rapidly becoming obsolete. And these new things added to the ever increasing use of iron and steel in the building industry and in a dozen different lines have expanded the places where iron is employed beyond all precedent. It does not matter where you turn but comparisons made with conditions ten years ago show how tremendously increased is the use for iron. Take one item alone—that of bath tubs. There is today a demand for twelve where then there was a demand for one.

The general state of employment and high standard of living are matters to give satisfaction. We could wish at this time that there was less expenditure of effort upon the superfluities and a greater concentration upon the necessaries, of which the world is in sore need, but it is impossible for the people of this country to visualize the conditions existing in the war distressed countries. It is a significant feature of popular expenditures that the esthetic quality has a greater appeal than ever before. The demand is not for cheap goods, but pleasing goods.

Conditions for Permanent Prosperity.

Nothing is required to maintain prosperity for the people of the United States but common-sense and the practice of the old virtues, industry, self-restraint, prudent fore-thought, and a spirit of co-operation not only among themselves but toward the other peoples of the world. The danger of the time is in the assertive, querulous, egotistic spirit which is destructive of associated effort and an embarrassment to social progress. Modern industrial society to secure the best results requires the co-operative spirit, the desire to help things along rather than to make trouble. Unfortunately the troublemakers are very numerous everywhere.

The Money Market.

Although call rates have been more stable in recent weeks the money market has undergone no other improvement.

Money is very tight and there is no prospect of its being otherwise soon. Farm land settlements in the West March 1st make important demands for credit, and the installment of Federal taxes falling on March 15 is another important factor. The dominating influence, however, and for which there is no assurance of early relief is the loss of reserves by the Federal reserve banks coupled with the rising costs of handling business.

It is highly important that the necessity for conserving credit shall be clearly understood not only among bankers but throughout the business community, but the idle talk of uninformed persons about "panic" is to be deprecated. The old-fashioned "panic," with "runs" on the banks to withdraw deposits, and suspension of cash payments, is an out-of-date performance. The Federal reserve system, with its practically unlimited power to issue currency, put an end to that, but it is a mistake to confuse unlimited power to pay deposits with unlimited power to make loans. The banks can do the former but they cannot do the latter.

In New York time money on collateral loans is commanding 8 to 9½ per cent.; call money, 7 to 15 per cent.; commercial paper is sold to yield 6¼ to 7 per cent.; while owing to the usury law regular loans to customers are restricted to 6 per cent.

The most trustworthy guide to the general banking situation is the consolidated report of the Federal reserve banks. This showed on January 2 total earning assets, $3,181,808,000, of which $2,805,818,000 were bills, and on February 28 total earning assets, $3,279,232,000, of which $2,984,878,000 were bills. Reserves have declined from $2,121,272,000 to $2,083,878,000, and owing to a reduction of reserve deposits the percentage of gold reserve has changed but slightly, from 42.6 to 42.5.

Loans at Highest Point.

This is not a satisfactory showing for the period of nearly two months following January 1st. It is the settling-up time of the year, when stocks of goods and materials are usually at the lowest, when collections are large and borrowing is at low ebb. It is unsatisfactory at this season to have the reserve banks go on making new high loan records, notwithstanding their efforts to liquidate, and in the face of reserve losses which are serious in amount and in significance for the future.

Federal reserve notes in circulation, which reached the high record on December 26 of $3,057,646,000, and then declined to $2,844,227,000 on January 23, had risen on February 28 to $3,019,984,000. We do not, however, attach primary importance to this item. The real expansion of credit occurs in the loans. After a loan has been made it is of little consequence whether the borrower chooses to make use of the credit by drawing currency or using his check book, and it is impracticable to put any restrictions upon him in this respect.

Price Level Too High.

There is little of comment to be added beyond what has been said over and over again. The banking system of the country is still operating on a gold basis; it is required by law to keep a fixed percentage of gold against its liabilities, but wages and prices are no longer on a gold basis. They are being pushed upward without any regard to their relation to gold values, and as they mount higher more credit is naturally called for to handle the business of the c untry. It cannot be too strongly stated that there is nothing to be gained by going farther along this road. The earning paper of the Federal reserve banks a year ago aggregated $2,263,596,000 and have increased $940,000,000 since. They will increase another billion in the year to come if no attempt is made to hold down industrial costs, and it will be just as hard to stop the increase then as it is now.

This pressure upon reserves has not been caused by an increasing volume of production, for in most lines production was lower in 1919 than in 1918. It has been caused by rising costs and prices, and an increase of bank credit has the same effect upon prices as increasing issues of paper money.

The reserve dollar is the gold dollar, but the dollar of industrial costs and of prices is a light-winged, soaring dollar which bears no constant relation to anything tangible. It is becoming a mere figure of speech. One board of arbitrators alters the dollar for one industry and another board or commission alters it somewhere else, all in the interest of peace, and, as they believe, fair play. But each alteration of this kind, while making peace in one industry, disturbs conditions elsewhere, and the general result is a continuation of changes, all upward, all tending to farther separate the dollar in trade and industry from the dollar of bank reserves.

Credit Expansion and Industrial Costs.

The question of credit expansion is directly related to industrial costs and to the endless cycle of wage and price advances. The cycle calls continually for more credit, and if the supply is to be provided indefinitely the "dollar" in which wages are paid will continue to depreciate in purchasing power, and the whole industrial and financial situation will become more and more hopelessly confused. It would seem that we have gone far enough in this direction for everybody to see that there is nothing to be gained for honest industry by going farther. There is no advantage to the wage-earner in reducing the currency of the United States to mere stage money, which has no definite command over the goods he wants to buy, or in having the industrial structure lifted up on a vast pyramid of credit, which will sooner or later collapse as all like pyramids have in the past. Nobody is more interested in a sure foundation for the industries than the wage-earner.

When this is understood it will be seen that a resolute stand must be made against increasing the volume of loans, compelling such a restriction of new undertakings and such a lowering of costs as will enable the business of the country to be done without further credit expansion. If the people will set themselves to increasing production and paying their debts the whole situation will rapidly improve, but there is no prospect for easier money except as this policy is pursued and the price-level lowered.

A Time for Social Spirit.

It will be said in behalf of further wage advances that they are necessary to equalize the status of certain industries with others, but there will never be a time when this will not be said. If social order is to be preserved and the common interests of all protected it is time to have less said about individual rights, and more said about individual duties. The capabili-

ties of a people for co-operative social life and development depend upon their recognition of obligations to promote the common welfare. If each individual will do his simple duty in aiding production, avoiding unnecessary consumption of goods known to be in short supply, and in paying his individual debts, the banking facilities will be ample.

The situation in foodstuffs is now favorable to a gradual decline of prices. The discount upon foreign currencies is so great that European countries are constrained to reduce their purchases to the lowest possible amounts. It is probable that European crops will be larger this year than last. There is now some probability that food exports from Russia may be available this year. With the coming of spring fresh vegetables will begin to appear in the markets and what remains of storage stocks will be released. The amount of available shipping is rapidly increasing and will reduce transportation charges between countries.

The Scarcity of Goods.

It is a known fact that scarcity in some lines exists as a result of the war, which will be gradually remedied as industry becomes normal. The production of sugar on the continent of Europe was down about 4,000,000 tons in 1919, and sugar is dear all over the world in consequence. The proper action for this situation is for every person to do with a little less sugar, each accepting his share of the deficit. Instead of this, through ignorance and thoughtlessness of course, the people of the United States consumed more sugar per capita in 1919 than ever before in their history. That has been a factor in making the price high.

And so the production of cotton and woolen cloth is down all over the world, not only as the result of the war but because of the reduction of the hours of labor in the textile industry in nearly all countries to eight hours daily. Eventually this will be made up, although at higher cost, by the enlargement of textile mills, but it cannot be done until new machinery is provided. The shortage of clothing which results temporarily should be voluntarily shared by all. Either those least able to buy must bear an undue share of the privation or everybody must accept some share of it. When a person says that he is entitled to have his pay increased to an extent that will meet the increased cost of living, does he mean that he wants enough to enable him to buy as much sugar and clothing as in normal times? No possible wage advances, if granted to the whole population alike, could get everybody as much clothing and sugar as if the supply was a full one. And this is true of many other things. Scarcity should be met by economy, smaller purchases by all, and by strenuous efforts to increase production, not by a mad scramble for each to get as much or more than before. It is a time for patience, reason, helpfulness and the social spirit.

Gold Exports.

During the year 1914 exports of gold from this country exceeded imports by the sum of $165,228,415, but in the next four years imports exceeded exports by $1,152,269,399, making a net gain from January 1, 1914, to December 31 1919, of $987,040,984. Under the tremendous pressure for bank credit existing during the war, these new supplies of gold were promptly engaged in use, becoming the basis of a vast body of indebtedness. By this means the loans of the national and state banks and trust companies have more than doubled since June 30, 1914.

There were plenty of warnings while this easy expansion of credit was going on that it was a dangerous proceeding, because we were getting more than our normal share of the world's gold and could not expect to hold it permanently. If we built a great structure of credit upon it we would be in danger of having the foundation pulled out from under it. As far back as July, 1915, this Letter said:

> "Gold is coming to this country in enormous amounts. . . . . . There is no prospect for any counter movement while the war lasts, but eventually the counter movement will come, supported by all the influences that naturally work to restore the equilibrium, and in what position will this country be to meet it? . . . . . It is a singular demonstration of the fundamental interdependence of modern society that we can not safely use this gold until normal conditions are restored and the other nations are able to sell us something for it. We dare not use the available credit ourselves, for that can only be done by wholesale borrowing on the part of the public—borrowing far beyond the needs of the legitimate, natural, and safe development. The condition of the country under such an indebtedness, and with the inflation of nominal values which such an amount of expenditure would cause, would be precarious."

After that we got into the war ourselves, and under the urgency of the situation felt obliged to use the gold. We have now the anticipated body of indebtedness based upon it, and month by month are seeing the foundation carried away. The restrictions that were placed upon gold exports during the war were lifted at the beginning of June, 1919, and since then the imports and exports of the metal have been as follows:

	Imports	Exports
June, 1919	$26,134,460	$ 82,972,840
July, 1919	1,846,495	54,673,227
August, 1919	2,490,489	45,189,318
September, 1919	1,471,628	29,050,466
October, 1919	4,969,595	44,148,990
November, 1919	2,396,770	51,857,796
December, 1919	12,914,036	46,216,236
January, 1920	12,017,551	47,816,873
Total	$64,341,024	$401,925,746
Net loss		$337,584,722

This loss was reduced by the receipts of gold from Germany, of which $112,800,000 is held abroad and does not enter into the figures of imports. That, however, was a special transaction and we are most interested in the natural movements. The tendency is evidently against us, although held in check by the fact that inflation exists everywhere else as well as here and that the whole world is needing goods from us even more than it needs gold.

Gold and Silver Exports and Imports, by Countries.

Below are shown the exports and imports of gold and silver of the United States in the calendar years 1918 and 1919, by countries:

	GOLD 1918	GOLD 1919	SILVER 1918	SILVER 1919
Imports from—				
France	......	......	$194,000	$76,000
England	$1,286	$4,056,000	142,000	62,000
Canada	45,787,000	44,487,000	7,641,000	7,121,000
Central Amer.	3,310,000	3,473,000	3,034,000	5,200,000
Mexico	5,244,000	4,464,000	51,017,000	63,303,000
West Indies	232,000	36,000	278,000	90,000
Brazil	399,000	26,000	4,000	2,000
Chile	262,000	233,000	2,161,000	1,927,000
Colombia	2,537,000	557,000	210,000	271,000
Brit. Guiana	426,000	139,000	......	......
Peru	637,000	815,000	5,116,000	8,863,000
Venezuela	296,000	382,000	1,000	2,500
Dutch E. Indies	798,000	3,851,000	248,000	1,774,000
Hongkong	......	10,018,000	......	20,000
Phil. Islands	897,000	582,000	6,000	12,000
All other	1,217,000	3,415,000	1,323,000	635,000
Total	$62,043,000	$76,534,000	$71,376,000	$89,410,000

	GOLD 1918	GOLD 1919	SILVER 1918	SILVER 1919
Exports to—				
France	......	$4,153,000	$5,060,000	$6,588,000
Spain	$10,000	29,788,000	......	[illegible]
England	......	2,091,000	32,688,000	15,635,000
Canada	1,546,000	5,706,000	3,607,000	7,854,000
Mexico	26,543,000	10,358,000	2,792,000	1,926,000
West Indies	......	33,000	92,000	163,000
Argentina	6,000	*56,560,000	179,000	4,000
Chile	8,737,000	100,000	......	......
Colombia	1,440,000	5,269,000	......	2,000
Peru	173,000	3,383,000	......	......
Uruguay	......	9,205,000	......	......
Venezuela	1,137,000	12,052,000	......	850,000
China	......	39,110,000	23,786,000	†77,583,000
British India	......	34,301,000	163,154,000	109,181,000
Dutch E. Indies	1,068,000	7,365,000	770,000	......
Hongkong	......	40,086,000	19,322,000	10,245,000
Japan	......	94,114,000	......	3,946,000
All other	407,000	14,522,000	1,397,000	5,042,000
Total	$41,070,000	‡$368,185,000	$252,846,000	§$239,021,000

* Of which $14,700,000 went in the month of December, 1919.
† Of which $24,986,000 went in the month of December, 1919.
‡ Of which $46,257,000 went in the month of December, 1919.
§ Of which $30,595,000 went in the month of December, 1919.

Trade With South America and Asia.

It will be seen by the above showing of the movements of gold and silver that most of the exports of silver went to Asia and most of the exports of gold went to Asia and South America. Spain was the only country of Europe which took a considerable amount of gold.

In connection with the statement it is interesting to study the trade of the United States with the countries of Asia and South America, in the calendar years 1918 and 1919, which is shown by the following table:

ASIA

	Imports from 1918	Imports from 1919	Exports to 1918	Exports to 1919
Aden	$965,000	$5,175,000	$118,000	$1,659,000
China	140,893,000	170,177,000	59,135,000	118,274,000
Chosen	139,000	335,000	1,826,000	3,333,000
British India	129,688,000	140,081,000	40,392,000	67,006,000
Str. Settlements	150,231,000	145,862,000	9,948,000	12,135,000
Dutch E. Indies	74,983,000	78,741,000	23,379,000	46,576,000
Hongkong	30,068,000	22,119,000	24,665,000	22,093,000
Japan	301,943,000	409,853,000	273,775,000	366,365,000
Russia in Asia	2,975,000	6,710,000	8,433,000	54,679,000
Siam	175,000	224,000	1,577,000	1,938,000
Turkey in Asia	486,000	22,838,000	416,000	4,842,000
Total Asia	$853,375,000	$1,041,444,000	$445,501,000	$703,667,000

SOUTH AMERICA

	Imports from 1918	Imports from 1919	Exports to 1918	Exports to 1919
Argentina	$228,388,000	$199,158,000	$105,105,000	$155,968,000
Bolivia	452,000	2,434,000	5,289,000	4,471,000
Brazil	98,038,000	233,571,000	57,391,000	114,656,000
Chile	166,083,000	82,442,000	66,404,000	53,472,000
Colombia	24,725,000	42,911,000	10,546,000	24,144,000
Ecuador	10,122,000	8,966,000	4,172,000	7,501,000
Brit. Guiana	394,000	399,000	5,511,000	5,125,000
Paraguay	140,000	1,031,000	701,000	894,000
Peru	34,423,000	33,111,000	21,716,000	26,945,000
Uruguay	35,583,000	50,484,000	16,193,000	31,420,000
Venezuela	11,957,000	32,111,000	7,161,000	14,429,000
Total S. A.	$610,531,000	$687,525,000	$302,710,000	$442,127,000

It will be seen that in relations with us Asia had a trade balance in 1918 of $407,874,000 and in 1919 of $337,777,000, while South America had a balance in 1918 of $307,821,000 and in 1919 of $245,398,000. We sent Asia $1,068,000 of gold and $207,032,000 of silver in 1918, and $214,-976,000 of gold and $201,831,000 silver in 1919. We sent South America $11,493,000 of gold in 1918 and $86,569,000 in 1919.

Our great favorable trade balance has been with Europe, to which we sent in 1919 $5,185,983,50 worth of commodities other than the prescious metals and from which we received $750,569,-784 worth. In 1918 our exports to Europe were $3,858,697,768 and our imports from Europe were $318,121,271. If we could apply a small portion of what is coming to us from Europe upon our indebtedness to Asia and South America we could readily stop these exports of gold.

Trade With Other Countries.

Our trade with the principal countries of Europe and other countries not given above, in 1918 and 1919 was as follows:

	1918 Imports from	1918 Exports to	1919 Imports from	1919 Exports to
Austria-Hungary..	$97,323	$..........	$2,390,973	$42,211,564
Belgium	13,964	154,649,338	7,700,100	377,876,308
Denmark ...	796,418	11,353,845	6,201,750	163,965,478
Finland	....	268	1,215,361	21,814,029
France	59,509,854	931,199,774	123,871,409	893,368,996
Germany ...	317,706	....	10,624,229	92,761,314
Greece	19,136,832	4,316,471	28,611,288	42,883,610
Italy	24,340,022	492,174,547	59,048,446	442,676,842
Netherlands..	8,824,419	11,369,269	75,506,503	255,134,440
Norway	2,015,851	36,137,464	7,371,249	135,134,594
Spain	18,488,289	69,188,733	49,391,903	102,819,694
Sweden	5,935,490	15,674,108	13,825,982	133,063,131
Switzerland..	16,882,742	27,602,921	27,687,818	76,145,554
United Kingdom..	148,614,815	2,061,292,543	309,189,265	2,270,178,048
Canada	451,695,009	886,877,584	494,693,869	734,267,286
Central Am. States	44,131,122	40,899,065	43,149,859	55,642,956
Mexico	158,043,427	97,788,736	148,926,376	131,451,901
West Indies (including Cuba)	310,470,808	282,133,528	461,648,522	353,440,095
Austral.-Asia	98,871,941	102,688,145	84,220,388	123,980,998
Br. Africa...	51,657,286	43,758,997	66,158,547	59,452,756
Philippine Islands ...	85,926,717	52,075,672	66,289,336	70,310,262

The Present Gold Movement.

Gold exports in January, 1920, aggregated $47,816,873, with imports of $12,017,551. The bulk of the latter came from Canada while the exports went chiefly, as heretofore, to South America and Asia. Argentina has taken $32,000,000 since February 1st and $40,500,000 has gone to South America since January 1st.

The heavy shipments to Argentina have given some reason for the belief that British imports from that country are being paid for in this manner, and it might be accomplished upon the initiative of either London or Buenos Aires. The fact that on the whole London is largely indebted to New York does not exclude individuals in London from having credit balances in New York. When an English holder of American securities sells them in New York, or an English manufacturer or trader sells goods in this country, the bank credit which is created is his to do what he wills with it. Moreover, London comes into possession of claims which other countries such as India, the Straits Settlements and Brazil have against New York, and may use them to draw gold for shipment to Buenos Aires.

It is customary for exporters of grain and other products from Buenos Aires to England to draw bills of exchange against them, on London. They sell the bills in the best market and if that is New York rather than Buenos Aires, they may sell them here and take the proceeds in gold. This is a broader exchange market than Buenos Aires, and if exports from the latter place were unusually heavy it might very well be desirable to divide the sales between the two markets. The settlements of international trade are complicated.

Why Not An Embargo.

Why not restore the embargo upon gold? This question is commonly asked. Why should the United States try to maintain gold payments when all the rest of the world has suspended, and why should the United States allow itself to be drained of gold to pay the debts of Great Britain or any other country, etc?

The first answer is that the United States is meeting the obligations of its own monetary system, as every country ought to do for its own honor and its own advantage so long as it is able to do so. When conditions develop which render it impossible for a country to meet its obligations, it must perforce make the best of it, but the countries which have been obliged to suspend gold payments regret the fact and wish to resume as soon as possible.

The prestige of London as a financial center was largely based upon the fact that it was the only money market and depository of funds which might be counted upon not to suspend gold payments or raise obstacles to withdrawals. Paris and Berlin, while nominally free gold markets, had ways of making it costly to withdraw funds. The effect was just that which results when any banking institution raises an objection to paying cash over the counter on demand—it turned business elsewhere, and contributed to London's preeminence. It may be recalled that in 1907 the United States drew over $100,000,000 of gold from London within a few weeks, a stupendous movement at that time and occasioning great inconvenience, but no obstacles were raised.

Other Countries Use London's Credit.

Within recent months several of the countries of Europe, notably France and Italy, have been paying for purchases in the United States by drawing through London. They obtain credits in London and then convert sterling exchange into dollars, following this course because sterling is less depreciated in New York than francs or lira. The effect, of course, is to increase the pressure upon sterling in New York, and raise the cost of all British importations from here, but no objection is made in London.

In a time like this, when all the rest of the world, including even London, is down, it may be said that no invidious comparisons could be made if the United States should do as the rest are compelled to. One answer to this is that in the ability to deal with a situation like the present with courage and success, to meet all obligations despite the difficulties, and to be of service to others in time of stress, lies the secret of achievement and prestige. Another answer is that the only excuse for failure to meet honorable obligations is in manifest inability to do so, and the the world will have its own opinion whether the United States with more than a normal share of the world's gold should have considered itself unable to go further.

The Economy of Gold Payments.

The gold which is leaving the United States all goes to pay our debts and pays them upon the most favorable terms possible. When the United States placed a partial embargo upon gold exports two years ago, exchange on Buenos Aires went to a premium of 7 per cent, and would have gone very much higher if the Argentine government had not granted a credit to the Federal Reserve Bank of New York of $100,000,000, and exchange on Spain to a premium of 50 per cent, and the cost of all our importations from those countries was increased to that extent. When the embargo was removed, the premium disappeared, or fell to approximately the cost of shipping gold. Our importations from Argentina are mainly hides, wool and other raw materials, the prices of which we wish to have reduced rather than increased. We enjoy the advantage today of making our purchases from the whole world on a gold basis, whether we are actually shipping gold to make particular purchases or not, while if we go off the gold basis, we will pay the premium not merely on the trade balances to a few countries,

but upon the entire volume of purchases from them, and our purchases even in other countries will be more or less affected.

Licensed Exports.

It is suggested that we go back to the system of licensing exports, letting gold go in direct exchange for our imports of commodities, thus preventing drafts upon our reserves to pay the balances of other countries. It is well to recognize, however, that the game of direct settlements is one that everybody can play. The Straits Settlements, for instance, and Brazil as appears above, each have trade balances which would enable them to claim over $100,000,000 per year from us on direct settlements, and if gold is allowed to go to them it may go through them to other countries. As said before, international trade settlements are very complicated.

It is true that by adding to the policy of direct settlements, executive power to place an embargo upon commodity imports of all kinds, thus bringing the foreign trade of the country under complete control, importations might be considerably reduced, but importations from the countries where we have adverse balances are generally of things like raw materials and food products, which we cannot well do without.

Deflation Better Than Inflation.

It is to be considered also that the policy of deflation, if not made too drastic, undoubtedly is the sound policy for this country. Inflation has gone far enough, and too far. The country should face about, and set itself to the task of reducing the enormous volume of indebtedness which chokes up the banking system. In other words it should set itself to the task of really paying that portion of the war expenses which is still carried by the banks. Taxation should be made broad enough and general enough to divert some of the extravagant personal expenditures now to be seen on all sides to that end.

We ought not to be deceived by the present period of inflation and extravagance, for every war has been followed by a similar period. We should follow the path which prudence and experience points out, and endeavor by the reduction of indebtedness, economy in expenditures and caution in commitments to move at least slowly in the direction of normal conditions.

If we do this we will have gold to spare, and it is more profitable to get rid of it than to keep it. There is no better use to which a merchant can put his ready cash than in discounting his bills, and our gold payments are doing this at a very high rate of discount.

Gold Exports Less Serious Than Rising Loans.

There is less occasion for concern over declining reserve percentages which result from exports of gold than in the case of declining percentages which result from increasing loans. The latter would show that inflation was still going on; the former is a process of debt-paying and in view of our creditor position toward Europe and the size of our gold reserve the losses are not in themselves alarming.

In fact the losses thus far may be regarded as beneficial rather than harmful. They are more healthful than gold imports would have been. A little gold-letting may be a good thing. When the British government released the Cape gold for free exportation there was reason for apprehension that a large part of the product might come here and that some of the reserves of neutral countries might be released for purchase in United States. It is better that no such influx has occurred. The efforts of the Federal Reserve authorities to check expansion might not have commanded the cooperation that is needed if reserves had been increasing instead of decreasing.

Gold Exchange Standard.

There would be no danger in having gold reserves very much below the requirements of the Federal reserve act, if the low percentage was due to exports of gold and not to increasing liabilities. The latter is the thing to be feared. As has been said many times, a banking reserve should be regarded as a provision for use in emergencies. The strength of a 40 per cent reserve is in the amount stored up for an emergency.

The most important use for gold is in the foreign trade. The most effective means of keeping a country on a gold basis is by supplying gold for the foreign payments. Paper currency will answer the purpose at home, but foreign payments require either gold or foreign credits. It has been demonstrated over and over again that a comparatively small amount of gold will maintain a very large volume of credit so long as foreign drafts are supplied as needed. The gold exchange standard of India was a success for more than fifteen years, until all exchanges were deranged by the war. It need not be doubted that one-half of the gold held by the Federal reserve banks could be exported without disturbing the relations of our paper currency to gold.

Suspension of Reserve Requirements.

The reserve conditions laid upon the Federal reserve banks are conservative, and as they should be. They were intended to give an effective check to expansion at 40 per cent., but there is a further provision for the suspension of reserve requirements which is admirably adapted for dealing with a reserve deficiency which is created by gold exports. This provision is contained in paragraph 68 of the Reserve Act, reading as follows:

> The Federal Reserve Board shall be authorized and empowered to suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirement specified in this Act: Provided, That it shall establish a graduated tax upon

the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified: And provided further, That when the gold reserve held against Federal reserve notes falls below forty per centum, the Federal Reserve Board shall establish a graduated tax of not more than one per centum per annum upon such deficiency until the reserves fall to thirty-two and one-half per centum, and when said reserve falls below thirty-two and one-half per centum, a tax at the rate increasingly of not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below thirty-two and one-half per centum. The tax shall be paid by the reserve bank, but the reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board.

This shows that the suspension of reserve requirements is wholly within the authority of the Federal Reserve Board, subject to the levy of a graduated tax, which is to be fixed by the Reserve Board, except that it must not be at a higher rate than one per cent per annum until the reserve has fallen below 32½ per cent.

There is nothing very severe about this, and there is no reason why a deficiency which is not occasioned by rising loans but by loss of reserves, should be severely penalized. That is a contingency not wholly within the power of the banks to control, and which they cannot immediately remedy.

It will be seen that the loss of gold and the decline of reserves to or below the 40 per cent ratio, need not of itself be regarded as something alarming. The reserve act contemplates and provides for it in an emergency, and how could there be a greater emergency than this which the war has created?

Loan Contraction a Gradual Process.

While it is imperative that the country shall not go on increasing the volume of bank loans, it is also impracticable to suddenly and rapidly reduce them. There are two methods by which they may be reduced, to-wit: first by holding new and unnecessary enterprises in check and using accumulations of capital to pay off existing indebtedness and clean up the situation; second, as the result of the fall of prices which will naturally follow the increase of production as the world returns to more normal industrial conditions. The situation should not be pressed beyond the accomplishment of these purposes because it cannot be without interfering with industry and production. Industrial disturbances, railway congestion, uncertainty about deliveries, high prices abroad, and similar causes, compel the use of abnormal amounts of credit and this fact cannot be disregarded. The situation should be dealt with firmly but considerately.

Demands of Japan and Argentina.

Exchange rates between this country and Japan are in favor of this country at the moment, but the trade balance between the two countries has been turning heavily in favor of Japan. For the first six months of 1919 our exports to that country were $204,813,261 and our imports, $141,971,803; for the second six months our exports were $161,557,332 and our imports $267,966,736. Japan's total foreign trade for the year was slightly against her on balance.

As to Argentina, the amount of gold which it is absorbing is abnormal, when its population of only about 8,000,000 people is considered. The statesmen and financiers of Argentina are well-informed and familiar with the dangers of inflation, and it may be presumed that they will not look with favor upon these excessive additions to the monetary stock, which must have the effect of increasing the cost of living. If conditions in Argentina are similar to those in other countries there will be greater need for merchandise to replenish stocks and for supplies and machinery for the industries, and equipment for the railroads, to make up for the enforced restrictions of war time, than for gold. And even if there is no occasion to disburse the credit balance in this manner, it would seem that there is still no advantage in importing the gold, as it will be as useful for reserve purposes or to draw against in world transactions in New York as in Buenos Aires.

We have referred above to the credit of $100,000,000 granted by the Argentine government in 1918 to the Federal Reserve Bank, of New York. The bank was authorized to sell drafts on Buenos Aires, holding the receipts for the credit of the Argentine government, which provided the funds for honoring the drafts in Buenos Aires. This settled the accounts arising from trade between the countries, leaving the Argentine government with a credit in this country, a large part of which remains unliquidated today, because there has been no occasion to use it. The balance is approximately $70,000,000. This would seem to be an arrangement which might be extended under conditions which would be mutually advantageous. Such funds might be employed if desired, in short loans in this market, and yet remain promptly available.

Prompt Payments a Condition of Credits.

It is evident, however, that Argentina will not only be unwilling to increase her accumulations here but will be prompted to withdraw her present balances, if there is any reason to suspect that the United States is contemplating the establishment of a new embargo upon gold. Indeed it is not improbable that the recent withdrawals were due in some degree to the irresponsible gossip that such action might be taken, which was promptly reported in the Buenos Aires newspapers. It may be added that all recent shipments have been for private account, the Argentine government balances remaining undisturbed. The understanding when the $100,000,000 credit was granted, included an agreement that the Argentine government should have unrestrained right of with-

drawal after a given time, and this assurance would have to be given, undoubtedly, to cover additional deposits.

The British, French and Italian governments have had applications pending in Buenos Aires since last July for a credit of 200,000,000 pesos, and the President and Minister of Finance have approved the loan and recommended it to the national Congress, with the result that it passed one House by a close vote but has failed to pass the other. If that loan had gone through these shipments of gold from New York doubtless would have been obviated.

An Argentine government issue in 1915, of $25,000,000 and £5,000,000 Sterling will be due May 1, 1920. The dollar bonds are payable in New York and the Sterling bonds in London, and it is understood that most of the latter are now held in this country. The Argentine government has taken no steps in regard to them, and is possibly intending to pay a part or all of them.

International Cooperation.

The whole world is in an upset condition, and it is highly desirable that each nation shall pursue a policy in relation to international trade and finance which instead of increasing the confusion will tend to promote international co-operation and stability. These matters are suitable subjects for international conference and negotiations, so that policies which serve the mutual advantage may be agreed upon. The international financial situation is somewhat like the old banking situation in this country before the Federal reserve system was adopted, when each bank sought to hoard cash and collect loans at the expense of its neighbors.

Foreign Trade and Exchanges.

The foreign trade figures for January again furnished a surprise as to exports, which rose $49,000,000 over those for December, although there was much talk during the month that they were falling off. Big figures for cotton were an important factor. Imports were expected to show an increase and did so. The figures for the month were $737,000,000 for exports and $474,000,000 for imports, bringing the net balance considerably below the $300,000,000 mark which was commonly reached last year. The source of the gain in imports is not shown by the preliminary statement. If they came from Europe the gain is encouraging, as indicating an increase of buying power, and support for the exchanges, but if they came from the countries which are drawing gold from us they are not welcome.

All of the important foreign exchanges made new low records in February, but recovered a portion of the ground lost. In the first week of the month sterling broke to $3.18, but subsequently worked back to as high a point as $3.49, although this was not held. The market has shown but little stability, the fluctuations being due apparently to the amount of the offerings. Cotton has continued to go out in large quantities but grain, meats and other commodities have been moving less freely, and the offerings of bills are reported as smaller.

Our monthly table of quotations of the principal exchanges, showing the parity,—changes during the past month and percentage of discount from par, is given below:

	Unit Value	Rate in cents Jan. 29	New rate Feb. 28	Change from Par	Depreciation in %
Canada	1.00	.9075	.8600	.14	14.0
Germany ...	.2382	.0135	.0105	.2277	95.6
Italy	.1930	.0649	.0543	.1387	71.9
Belgium ...	.1930	.0727	.0727	.1203	62.3
France	.1930	.0760	.0702	.1228	63.6
England ...	4.8665	3.5300	3.3800	1.4865	30.5
Switzerland.	.1930	.1786	.1613	.0317	16.4
Holland ...	.4020	.3875	.3700	.0320	7.9
Denmark ..	.2680	.1650	.1500	.1180	44.0
Norway	.2680	.1780	.1725	.0955	35.6
Sweden	.2680	.1970	.1875	.0805	30.0
Spain	.1930	.1850	.1740	.0190	9.8
Argentine ..	.9648	.9800	.9850	†.0202	*2.1
Japan	.4985	.4875	.4800	.0185	3.7

*Premium. †About par.

Certain fundamental truths as to the European situation were clearly set forth in the call for an international conference, published in this Letter last month. The national budgets should be balanced, and revenues sufficient to meet governmental expenditures raised by taxation. Responsible control should be established over imports, so that whatever exchange is available should be used only for necessary purchases. The proceeds of loans placed in this country should be strictly applied to the purchase of supplies necessary to sustain the working power of the populations and for industrial equipment and raw materials.

Subject to these provisions there is need for help from America. It is not enough to say that Europe must go to work, when the people are without the tools, or materials with which work is done, and are lacking the food and clothing required to sustain life and protect them from exposure. Certain features of the situation are well known. Europe before the war was obliged to import large quantities of food and raw materials, but was able to pay for them with the manufactures which it exported. But it will have little to export until it has raw materials.

President Wilson and Secretary Glass in December last united in a recommendation to Congress for the appropriation of $150,000,000 for the purchase of food for the cities of Austria, Poland, and Hungary, and for the people of Armenia. After a month or so of delay the House Committee decided to recommend an appropriation of $50,000,000, but even this measure appears to have been dropped. It must be supposed that the Committee has information upon the situation

different from that which is commonly available, but the various relief committees join Mr. Hoover in urging that aid be promptly provided.

Funding the Foreign Loans.

Negotiations are reported to be under way for funding the short term obligations of the governments associated with the United States in the war and indebted to it upon loans aggregating nearly $10,000,000,000. No understanding has been announced, but the Secretary of the Treasury in his letter to the Chairman of the Ways and Means Committee of the House not only expressed very strongly his conviction that the collection of accruing interest should be deferred for a time, but that he had authority under the act authorizing the loans to arrange for dates of payment and rates of interest. He said:

> My advisers are firmly of the opinion that, in connection with and as a part of a general funding of the demand obligations into time obligations, I am duly authorized, under the Liberty loan acts, to spread over subsequent years the interest which would accrue during the reconstruction period of, say, two or three years, and to include such amounts in the time obligations. If, however, the Ways and Means Committee of the House, which shared with the Secretary of the Treasury the initial responsibility for the Liberty loan acts, should question my power so to act, I shall be pleased to have you so inform me at once, in order that I may lay before your committee a proposal for further enabling legislation.

We have repeatedly supported the view that it was impracticable and from every standpoint inadvisable to seek the collection of interest at this time, and that the collection of any part of the principal should also be deferred until trade and industrial conditions have become more normal. It is in the mutual interest that the debtor nations shall have the opportunity to re-establish their industries and accomplish these payments in the natural course of world trade.

It is well to bear in mind, however, the present abnormal state of the exchanges and the injurious effects which might result if by reason of new developments Europe should gain the power to draw heavily upon our gold reserves. In that possible event it would be well to have a considerable portion of this indebtedness in such form that it could be used to stabilize the exchanges, and in the opinion of some experienced exchange bankers this contingency should have consideration in the arrangement of maturities.

A New Era for the Railroads.

The Railroad Bill entitled "An Act to provide for the termination of Federal control of railroads and systems of transportation; to provide for the settlement of disputes between carriers and their employes; to further amend an act entitled 'An Act to regulate commerce,' approved February 4, 1887, as amended, and for other purposes," passed the House of Representatives on February 21st after a five-hour debate, by a five to three majority, and two days later passed the Senate by a three to one majority. No less than 45 Democrats in the House voted with 205 Republicans for the adoption of the Conference Report, while in the Senate 15 Democrats joined with 32 Republicans in support of the measure, thus clearly indicating the non-partisan character of the legislation.

The ease with which the Bill passed was a matter of considerable surprise in view of the declaration of railway labor leaders that "Every man who votes for the Conference Report should be marked by his constituents and retired to private life at the first opportunity." The Brotherhood chiefs still desire the Plumb Plan, but, realizing the impossibility of securing its adoption at present, prefer a two year extension of Federal control, presumably in the hope that public sentiment might in that period become friendly to that form of government ownership. The passage of this Bill destroys such hope and it is doubtless for this reason that the railway labor leaders have attacked the measure so vigorously. At the time of writing they are appealing to the President to veto it. The Bill provides that one-third of the Labor Board which shall pass upon future labor controversies shall be made up of representatives of the public. But the union attitude, we are told, is one of unalterable opposition to the tripartite wage handling machinery; an attitude equivalent to a denial of the public's right to a voice in such disputes, and to insistence on a board so constituted as to make possible perpetual deadlock.

Features of the Bill.

The "Transportation Act, 1920," as this Bill is properly cited, derives 21 paragraphs or sections from the Esch Bill and 18 from the Cummins Bill, while in about a dozen sections it contains compromise matter.

In the February issue of this Letter we enumerated those provisions which we regard as fundamental if railroad credit is to be stabilized. All of these provisions appear in the Bill although, in one or two matters, they are not quite as liberal as we hoped for.

First, and most important, for the immediate future, is the extension of the Federal guaranties for six months to all railroads which so elect on or before March 15th. Inasmuch as any carrier that earns an amount in excess of its standard return for this period must surrender such excess to the Government, two or three roads which have been earning a substantial margin above their compensation, will probably refuse the guaranty, but for ninety per cent. of the roads it is essential to their financial safety.

The new revolving fund is fixed at $300,000,000. We still believe a more generous ap-

propriation would have been desirable since it will not be easy for the railroad companies to secure capital from private investors for the present. Not only will it require time to restore confidence in railroad securities, but the investment markets have been under a great pressure of new issues at a time when tax laws make it impossible for the large investor to purchase taxable bonds. However, any deficiency arising from the extension of the guaranties for six months are to be met by the Treasury, which leaves the full amount of this new fund available for loans. Further relief is afforded by an appropriation of $200,000,000 to enable the Railroad Administration to turn over to the carriers a working capital equivalent to half a month's operating expenses. Here again, we regret that a full month's operating expenses were not used as the basis.

The railroads owe the United States $1,152,000,000 for additions and betterments, and $357,000,000 for equipment and $239,000,000 for open account indebtedness. On its part, the United States owes the railroads $1,442,000,000. The right of setting off one indebtedness against the other has been made more flexible than in either the Cummins or Esch Bills, and the carriers will have the right to fund not less than $915,000,000 of their debt. The Bill also provides that the right of set-off shall not be exercised so as to prevent a carrier from having the sums required for interest charges and taxes, and in addition, the sums required for dividends declared and paid during Federal control.

Rate Making.

The rule for rate-making, because of its importance, we quote here:

"In the exercise of its power to prescribe just and reasonable rates the Commission shall initiate, modify, establish or adjust such rates so that carriers as a whole (or as a whole in each of such rate groups of territories as the Commission may from time to time designate) will, under honest, efficient and economical management and reasonable expenditures for maintenance of way, structures and equipment, earn an aggregate annual net railway operating income equal, as nearly as may be, to a fair return upon the aggregate value of the railway property of such carriers held for and used in the service of transportation: Provided, That the Commission shall have reasonable latitude to modify or adjust any particular rate which it may find to be unjust or unreasonable, and to prescribe different rates for different sections of the country.

"The Commission shall from time to time determine and make public what percentage of such aggregate property value constitutes a fair return thereon, and such percentage shall be uniform for all rate groups or territories which may be designated by the Commission. In making such determination it shall give due consideration, among other things, to the transportation needs of the country and the necessity (under honest, efficient and economical management of existing transportation facilities) of enlarging such facilities in order to provide the people of the United States with adequate transportation: Provided, That, during the two years beginning March 1, 1920, the Commission shall take as such fair return a sum equal to 5½ per centum of such aggregate value, but may, in its discretion, add thereto a sum not exceeding one-half of one per centum of such aggregate value to make provision in whole or in part for improvements, betterments or equipment, which, according to the accounting system prescribed by the Commission, are chargeable to capital account.

"For the purposes of this section, such aggregate value of the property of the carriers shall be determined by the Commission from time to time and as often as may be necessary. The Commission may utilize the results of its investigation under section 19a of this Act, in so far as deemed by it available, and shall give due consideration to all the elements of value recognized by the law of the land for rate-making purposes, and shall give to the property investment account of the carriers only that consideration which under such law it is entitled to in establishing values for rate-making purposes. Whenever pursuant to section 19a of this Act the value of the railway property of any carrier held for and used in the service of transportation has been finally ascertained, the value so ascertained shall be deemed by the Commission to be the value thereof for the purpose of determining such aggregate value."

This rule for rate-making has been commonly misunderstood. The individual railroad is guaranteed nothing. In the debate in the House, Representative Esch described its operation in the following words: "It simply means that there will be a set rate upon the valuation of the roads, and then it is left for every road to struggle to make what it can. There will be some roads that will not make more than a return of 2½ or 3 per cent. possibly, and the Government will not make up the difference."

In the year ended Dec. 31, 1919, the aggregate railway operating income was 2.63 per cent on the property investment accounts. If the Commission accept these accounts as substantially reflecting the value of the carriers, an increase in net operating income of $530,000,000 is required in order that the basic return of 5½ per cent should be earned, while a return of 6 per cent would necessitate an increase in net operating income of $625,000,000. The effect of the Bill will therefore be to reverse the decline in operating income and the return on the investment disclosed in the following figures:

Year ended	Investment	Railway Operating Income	Return on Investment
June 30, 1908....	$13,213,766,540	$645,680,235	4.89%
Dec. 31, 1916....	17,842,776,668	1,100,545,422	6.17%
1917....	18,574,297,873	986,189,181	5.31%
1918....	19,005,065,288	728,376,209	3,83%
1919....	19,500,000,000*	514,000,000	2.63%

*(Estimated).

The rate-making sections of the Conference Bill also provide that if a carrier receive in any year a net railway operating income in excess of 6 per cent of the value of the property used by it in the service of transportation, one-half of such excess shall be placed in a reserve fund to the carrier's credit and the other half shall be paid

over to the Interstate Commerce Commission for the purpose of establishing and maintaining a general railroad contingent fund, which fund shall be used by the Commission for making loans to the carriers to meet expenditures for capital account, or to refund maturing securities originally issued for capital account, or to purchase equipment and lease it to carriers. It is this provision for the recapture of excess which has led to some criticism of the constitutionality of the Bill.

Powers of Interstate Commerce Commission.

The powers of the Interstate Commerce Commission are vastly increased. Its membership is augmented from 9 to 11 and the salaries increased from $10,000 to $12,000 per annum. Four months after the Bill becomes a law the Commission will have authority over the issuance of securities. It can regulate the division of rates as between carriers. In case of conflict with State-made rates, the carriers are compelled to observe the orders of the Federal Commission, the law of any State or a decision or order of any State authority to the contrary notwithstanding. It can require the joint use of terminals and may fix terms and compensation. Consolidations, mergers and poolings of earnings or facilities, subject to the approval of the Commission, are permitted. One carrier is permitted to acquire the control of another by lease or purchase of stock, but all mergers must be in harmony with a plan to be prepared and adopted by the Commission for consolidation of all the railway properties of the continental United States into a limited number of systems. Consolidations are thus to be voluntary, and not compulsory, as was originally proposed by the Senate Bill.

No law administers itself, and the success of this amended Interstate Commerce Act will depend on the way it is administered by the Interstate Commerce Commission.

Following are some of the points left to the discretion of the Commission. It must determine—

1. What constitutes a fair percentage of return on the value of railroad property after March 1, 1922.
2. Whether it will adopt 5½% or 6% as the fair return in 1920 and 1921.
3. What are the values on which the return is to be allowed now, and in the future, subject, of course, to review by the courts.
4. Whether there shall be one rate district for the whole country, or sub-divisions thereof. This is a matter of the greatest importance to roads in such sections as New England, for example.
5. What constitutes "honest, efficient and economical management" and what are "reasonable expenditures for maintenance."
6. Whether public interest requires the construction of new lines and whether unprofitable lines may be abandoned.
7. Whether securities may be issued and sold, exception being made only as to notes maturing within two years or less and in amount not more than 5% of the par value of the securities of the carrier then outstanding.
8. Whether a carrier can procure a loan from the new revolving fund, as it must be satisfied with the character and value of the security offered, the extent to which the public's convenience and necessity will be served, and the present and prospective ability of the carrier to repay the loan.

Present Personnel of Commission.

The foregoing may give a faint idea of the enormous power which will be wielded by this body of eleven members. Whether the United States will continue to enjoy private ownership of railroads, or whether it will be forced to adopt Government ownership in the near future, will depend to a great extent on how the Commission exercises its powers. At present the Commission is composed of only eight members, one vacancy having existed for over a year. One member has had fourteen years experience, two members nine years, two members six years, two members two years and one member one year. The dean of the Commission in point of experience and service is Mr. Clark, who, when Chief of the Order of Railway Conductors, was appointed to it by President Roosevelt. There are two university professors on the Commission, and four lawyers, three of whom had previous experience as members of state public service commissions, and there is one member whose experience has been largely along newspaper and publicity lines. It seems a matter for sincere regret that Mr. Harlan, who had served on the Commission 12 years should not have been reappointed at the expiration of his term in 1918, especially in view of the vigorous opinion written by him in the 15 per cent Rate Case of 1917, wherein he endorsed the carriers' application for the full increase prayed for. His vision of the problem, which was presented to the Commission in 1917, was unfortunately not shared by his associates. When the President faces the duty of selecting three additional members it is earnestly to be hoped that his appointments will go to the very ablest men obtainable. The Commission would be greatly strengthened by the addition to its membership of one or two first class railway men who have had long practical experience in the business and who would therefore be reasonably familiar with the problems with which it must at once cope. The addition of a highly regarded banker, especially one who is familiar with the investment markets of the world would likewise be fitting.

The crying need of the railroads is the restoration of their credit. This can only come as the Commission will convince investors of its friendly attitude. As a well known railroad man has recently expressed it, "Investors need not, and will not, be mendicants for the privilege of serving the public, but will expect Governmental assurances to be as definite as the investor's dollars. If private ownership is to be retained those who use the railroads must pay whatever price is necessary to retain it." The Transportation Act of

1920 gives railroad investors more definite assurances than they have had heretofore, but the Commission must translate these assurances into action and on its acts will hinge the future of the railroads.

For the next twelve months the public should be patient with railroad shortcomings. The mere restoration to private management will not alter matters greatly over night. Organizations will have to be rebuilt and morale re-established. Only time and the application of large amounts of fresh capital can restore the quality of service that existed before the war.

Industrial Progress.

The cotton goods manufacturers have had several years of great prosperity, and the effects of that prosperity are now to be seen in a great expansion of mill capacity. A recent dispatch to the New York Journal of Commerce describes the situation in the South as follows:

> Charlotte, N. C., Jan. 12.—Textile mill engineering, architectural and machinery circles here report greater activity to-day in the building and enlarging of cotton factories in the cotton-growing States than ever before since the first cotton mill was located in the South.
>
> Never before have such large amounts of capital been appropriated for building Southern mills, the established plants having been successful far beyond their expectations in the earning of dividends during the past fifteen months. Moreover, it is these established mills which are making the greatest investments in mill building now.
>
> Southern trend continues to be in the direction of the finer grades of cloth production and big quantities of yarn are being demanded for the knitting mills. New England is furnishing most of the textile machinery for the Southern mills and the machinery works of that section have contracts on file for several years of their production to meet the needs of Southern buyers of textile mill equipments.
>
> It will be another fifteen to eighteen months before all the equipments are in position. The total of spindles and looms in the reports of 1919 is 770,000 and 11,000 for both the new and enlarging mills. Conservatively estimated at $300 for looms and $70 for spindles, which the machinery experts say are the proper figures for an average, those spinning and weaving equipments indicate an investment of $58,900,000 for the spindles and $3,300,000 for the looms, with their accompaniments in the way of buildings and other necessities.

This illustrates the usual effect of business profits upon the industries in which profits are made, and it is not difficult to see the broad distribution of benefits that follows. Large profits have been made in the manufacture of cotton goods. Profiteering is the popular term for it. The profits have been legitimate, however, because they were the result of a state of trade which was free and uncontrolled. The demand for goods has exceeded the supply, and an open market has made the price, just as an open market has made the price for corn. No single producer could put down the market if he tried; he might sell his own goods under the market, and allow the purchaser to have the profit, but that would not affect prices to consumers.

Here is a situation in which the critics of "capitalism" see nothing but great profits going into the pockets of the mill owners, but that is not the whole story. The above dispatch tells of a development that inevitably follows. The profits are going back into more cotton mills, thus insuring an increased production of cotton cloth, with the result that the shortage which has caused high prices will be corrected in the only possible manner.

Fluctuating Profits.

Every experienced business man knows that profits in manufacturing fluctuate largely, with the relation of output to demand. There are years above the average when construction is stimulated and often is overdone, resulting in years of low profits.

There can be no general reduction of cotton goods prices except as production overtakes market demands. So long as the supply is short consumers will compete and the competition will make the price. A restoration of the hours of operating mill machinery from 48 to 54 per week would relieve the situation in some degree, but since the attitude of the labor organizations makes this impossible the only remedy is in having more mills, which requires more capital.

It is an interesting example of the workings of economic law that the very action of the labor organizations in reducing the hours of labor has the effect of promoting the accumulation of new capital for mill construction. The curtailment of production creates a scarcity of goods, which results in prices enough higher to not only compensate the mill companies for their higher costs but actually increases their profits. Moreover, with high profits as an inducement, not only will the mill companies turn their surplus earnings back into the industry, but capital will be attracted from outside the industry. Under high profits the expansion of mill capacity will take place more rapidly than under small profits, and relief to the public will come more quickly.

Agitation, however, proceeds upon the theory that all of this investment for the production of more cotton goods is of value to nobody but the owners. This is the fundamental misconception of the time.

The Necessity for Capital.

This expansion of cloth-making capacity is unavoidable, and the accumulation of capital for that purpose is necessary. If the government should seize upon all the profits of the cotton goods industry it could put them to no better use than in building more mills, and if the government should take over the entire

cotton goods industry it could find no better means of raising the capital required for more mills than by collecting it in the price of cotton goods. The cotton goods business should stand on its own footing, as the railroad business should do, by paying its way, and obtaining on business principles the capital it requires from the people whom it serves.

It is important that there shall be a clear understanding of this fact, that the necessity for profit, or, to use another word, for a surplus over and above the cost of production, is not peculiar to private industry. There is a catchy phrase going the rounds just now, to the effect that industry should be for public service and not for private profit. It is true that all industry and all business should be for public service; no business is legitimate or honest which does not give service and value to the public whose patronage it invites; but there must be a surplus from all business operations or there can be no development in industry or progress for society.

Production Must be Increased.

All talk about improving the living conditions of the people which does not take account of the necessity for increasing the accumulations of capital is idle. If such talk means anything it is that the people shall be able to have more of the consumable goods that are for sale in the markets, and which minister to their comfort and welfare, but it is impossible for them to have more goods unless the industrial capacity of the country is increased. There must be more mills, more machinery and greater production. These cannot be provided without a surplus left over, which can be used to pay labor for constructing the new mills and machinery.

It is an empty promise to offer higher wages without any increase in the supply of things which the wage earners wish to buy. When this result is realized sensational agitators attempt to increase discontent by charging that the wage earners have been deliberately tricked, but they are dealing with a very simple economic law. You cannot divide any more than all there is. If only a limited amount of cotton cloth can be produced, you may double all wages without enabling the wage earners to raise the standard of living so far as cotton goods are concerned. Any attempt to spend the additional wages for cotton goods will simply raise the price of the goods, and the same law will apply to every expenditure the wage earners wish to make. Nobody ought to be fooled as to the outcome of so simple and obvious a situation as this. Wage increases are worthless unless accompanied by increased production, and as capital is a necessary agency in production it follows that higher wages and more capital must go along together in order to accomplish the desired result.

Wages in the Textile Industries.

Wages have been advanced in the textile industries since the beginning of the war by something like 140 per cent., which is considerably more than the advance in the cost of living as calculated by the official authorities, and at the same time production per employe has been reduced by shortening the hours of labor. The labor leaders in the industry point to this as a great achievement, and say that "any attempt to go back to the old conditions will be bitterly resented and fought by the workers." These leaders are the representatives of their own group. We assume that they are honestly devoted to the cause, and due allowance may be properly made for their zeal, even though it carries them to lengths which are harmful to workers in other industries. We will not say that this is the case, for we are not prepared to pass upon the relative position formerly held by the textile workers as compared with others. But it is beyond controversy that the gains of the textile workers, at least in shorter hours, have been made at the expense of the consumers of cloth, who are the entire population. It is not, therefore, in the nature of a general social reform, but something which by reason of favorable conditions they have been able to exact from other people, who for the most part are workers like themselves.

The Natural Law of Prices.

It is an old and unchallenged rule of moral conduct that each individual should consider what would be the result if everybody attempted to follow the same policy that he would adopt for himself. Applying this rule it will be seen that what the textile workers have done would be impossible for labor generally. If all wages were to be increased 140 per cent., and production in all lines reduced, there would be no improvement in the condition of the wage-earning class. Despite the increase of wages there would be a smaller supply of everything which would minister to their comfort. Any attempt to use the larger wages would result in their bidding against each other, just as the whole community is bidding for cotton goods now, until all the wage gains were absorbed by higher prices.

When the natural law of prices is understood less will be said about profiteering and price-fixing and wage increases, and more attention will be given to the fundamental cond'tions which have to do with an abundant production of the things that everybody is wanting.

Bond Market.

February opened with heavy liquidation and weakness in practically all classes of bonds. This condition continued into the second week of the month when sterling broke to 3.18 and call money rose to 25%. The bond market displayed extreme weakness and there was considerable selling pressure exerted by the offering of securities held abroad which could be sold in American markets at a profit as the result of the prevailing rates of exchange. United States Government bonds were weak and there was a broad market in foreign government issues. Railroad bonds registered some of the lowest prices in history. Industrials as a class were comparatively steady, but in special issues there were severe declines, International Mercantile Marine 6s selling under 90, compared with a price of 106 last year. During the third week of the month the pressure continued; high grade railroad bonds displayed the greatest weakness, while public utilities and industrials also declined. These declines were a reflection, no doubt, of the uncertainty in the stock market which was influenced by a threatened strike of railroad employes and high money rates. The last week of the month brought a reversal of some of the unsettling influences and the bond market became active and in special lines developed some stronger tendencies. The combined average of forty active corporate issues as compiled by the Wall Street Journal on February 26 was 77.66, compared with 79.30 on January 26 and 85.51 on February 26, 1919.

Government and Liberty Issues.

The continued liquidation of Liberty bonds by banks and corporations and the closing out of many accounts which had no doubt been protected by a ten point margin resulted in the Second and Fourth 4¼s breaking through 90. Liberty 3½s sold at the opening of the month at 98, but later reached a low figure of 94. The market has been a day-to-day affair throughout the month, showing some signs of strength when artificial support was rendered by the Federal Reserve Bank. According to official reports from Washington, Liberty bonds of a par value of $14,881,950 were purchased or retired in January in addition to purchases made for the 5% account. As a result of the expenses incurred in the execution of Liberty bond orders, there is a movement on foot in New York to increase the rate of commission to ⅛ of 1%. We understand that the Boston Stock Exchange has voted unanimously to charge ⅛ of 1% on all transactions, with a minimum charge of fifty cents.

Municipal Market.

The municipal market has been adversely affected by the general decline in Liberties, with the result that February records a smaller number of large offerings than any month for several years past. The principal issues were $1,250,000 Cincinnati, Ohio, 5 per cent. Bonds on a 4.80 per cent. basis; $857,500 Salt Lake City, Utah, 5 per cent. Bonds on a 5 per cent. basis, and $2,700,000 State of Massachusetts 5 per cent. Bonds maturing from 1920 to 1929 at prices ranging from a 5¼ per cent. to a 4.55 per cent. basis. The latter issue was sold in two days and is an interesting commentary on the condition of the municipal market, showing that attractive prices will bring out the buyers in spite of the general hesitancy which has pervaded the February market. The attractiveness of this particular issue is emphasized when we consider that the credit of the State of Massachusetts formerly ruled on a 3 per cent. basis.

Investment houses are reporting a continued interest in Canadian issues, which are being offered at prices to yield from 6½ per cent. to 6.75 per cent. One of the most attractive offerings of the month was $2,498,000 Province of Manitoba 6 per cent. Bonds on a 6.75 per cent. basis.

Foreign Government Issues.

Foreign government bonds fluctuated through a wide range during the month and particular interest was attached to the extensive trading in Anglo-French 5s. It will be recalled that this issue was offered in the amount of $500,000,000 in 1915 at 98, and during the opening week of February the bonds sold down to 93½, at which price the yield is over 15 per cent. Later in the month the market broadened and reports to the effect that

Discount Rates Approved by Federal Reserve Board up to February 28, 1920.

Federal Reserve Banks	Discounted bills maturing within 90 days (including memberbanks' 15-day collateral notes) secured by		Bankers acceptances maturing within 3 months	Trade acceptances maturing within 90 days	Discounted bills secured otherwise than by Government war obligations, also unsecured, maturing within	
	Treasury certificates of indebtedness	Liberty bonds and Victory notes			90 days (including member banks' 15-day collateral notes)	91 to 180 days (agricultural and live-stock paper)
Boston	5	5½	5	6	6	6
New York	5	5½	5	6	6	6
Philadelphia	5	5½	5	6	6	6
Cleveland	4¾	5½	5	6	6	6
Richmond	5	5½	5	6	6	6
Atlanta	5	5½	5	6	6	6
Chicago	5	5½	5¼	6	6	6
St. Louis	4¾	5½	5	6	6	6
Minneapolis	4¾	5½	5	5½	6	6
Kansas City	5	5½	5	6	6	6
Dallas	4½	5	....	5	6	6
San Francisco	4¾	5½	5	6	6	6

Note—Rate on paper secured by War Finance Corporation bonds 1 per cent. higher than the rate on commercial paper shown in column 3.

the maturity would be met on October 15 finally resulted in the quotation reaching 96½. United Kingdom 5½s of 1922 advanced from 90½ to 92½, while the 1929 issue advanced from 90½ to 91½. The Kingdom of Italy offered an external issue of $25,000,000 bearing a 6½ per cent. rate payable February 1, 1925, at 97½ and interest, to yield about 7⅛ per cent. These bonds carried a call on lire at the fixed rate of seven lire per dollar. There was also an offering of $1,500,000 Kingdom of Norway 6 per cent. Bonds maturing February 1, 1923, at 96 and interest, to yield 7½ per cent. This is part of the original Norway issue of $5,000,000 which was placed in this country in 1916. American investment houses have also been advertising quite extensively that they are prepared to take subscriptions for the new internal 5 per cent. loans of Belgium and France.

According to a Treasury Department report, it is stated that more than $4,000,000,000 of foreign securities have been sold to American Investors since May 4, 1914, of which $1,500,000,000 were offered by Great Britain.

Railroad and Corporate Issues.

Railroad bonds reached their lowest average prices in history during the first of the month as a result of heavy foreign selling and uncertainty over the outcome of railroad legislation. The passage of the railroad bill brought a welcome change in the market and resulted in advances of from one to two and one-half points; Southern Railway General 4s sold at 59½, an advance of 2½ points; Rock Island Refunding 4s sold at 62¾, an advance of two points; New York Central 6s sold at 91¾, an advance of 1½ points, and Baltimore & Ohio 6s sold at 83½, an advance of 1½ points. These advances, however, are infinitesimal when compared with former prices, for these issues which have been selected as indicators are selling about twenty points below 1917 prices and from ten to fifteen points below the high prices of 1919.

Second Porto Rican Branch.

The second Porto Rican branch of The National City Bank of New York was opened at Ponce, February 10. The Bank's first branch on the Island was opened a year and a half ago at San Juan. Throughout the entire Caribbean region The National City Bank and the International Banking Corporation together now have a total of thirty-nine branches.

THE NATIONAL CITY BANK OF NEW YORK

THE NATIONAL CITY BANK OF NEW YORK

1920

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, APRIL, 1920.

General Business Conditions.

TRADE conditions continue very satisfactory. The volume of retail distribution is undiminished, and although a note of warning is occasionally heard against higher prices, the goods moving into consumption must be replenished, and manufacturers have all the business they want in sight.

The textiles are about as they were a month ago. The market in hides has had a sensational decline, amounting in some lines to 50 per cent, but has recovered a little from the low. Sole leather is much stronger than upper leather, a fact which may be due to the now popular practice of re-soling foot wear. The weakness in hides, however, does not have immediate bearing upon shoes, although if it continues it will have an effect in time. Shoes for the 1920 fall trade are being made now, and of course the leather is in stock.

The iron and steel industry is going strong, with plenty of business in sight for a long time, but there is less talk about a general advance of prices.

The anxieties about foreign trade and tight money have been allayed at least temporarily by the recovery of sterling and the importations of gold, but the situation continues to have enough of disquieting elements. The tendency to higher costs is chief of these. The prospective advances in railroad charges and coal-mining costs will affect the entire field of industry, and there is a feeling of unsettlement in many industries as to the labor situation. The building program is threatened by further demands and complications.

Agricultural Conditions.

The market talk about the next wheat crop is not reassuring at the moment. The acreage in winter wheat is short and the crop is said to be not in prime condition. Just now the southwestern states are very much in need of rain. Moreover reports from the spring wheat states of the northwest say that the acreage this year will not be large.

Weather conditions have not been favorable to an early start in cotton-planting and labor conditions are against putting in a large crop in short time. The price of cotton for March delivery in the last week of that month reached 43 cents, the highest figure touched in fifty years, and although it has since receded to below 40, it is still high enough presumably to stimulate a large planting if the labor can be had to do it.

Labor Shortage on Farms.

Reports are general that labor is very scarce upon the farms and that production will be reduced in consequence. Many young men who went into the army from farms have not returned, and the high wages and short hours now prevailing in the manufacturing industries continue to attract the young men.

A Bulletin dated March 20, 1920, issued by the Extension Service of the Department of Agriculture, cooperating with the New Hampshire College of Agriculture, gives the result of a canvass just completed of 320 farms in New Hampshire. These farms are said to be somewhat above the average in size and amount of labor employed, but otherwise representative of agricultural conditions in the state. The Bulletin says as to the result of its inquiries:

> 48 farms report that they expect to be able to maintain their normal production of crops, livestock, and livestock products during the coming season. In every case but two, this is stated to be providing they are able to retain their present hired help.
>
> 266 farms report that they will be obliged to curtail production of their staple products during the coming season, due to the lack of help. The average of these statements is that crop production will be decreased 41 per cent under the normal for these farms; and that production of livestock and livestock products will be decreased 37 per cent under the normal for these farms.

A similar canvass in New York state has yielded similar results. The reports show clearly that the situation is getting seriously out of balance. If there are any people who still think that wages can be pushed up in the town industries without limit and the hours of labor still further curtailed, at the sole expense of employers, their attention is invited.

Financial Affairs.

The money market is about as it was a month ago, so far as interest rates are concerned. Loans to bank customers are on a straight 6 per cent

basis in obedience to the usury law, but commercial paper sells on a 7 per cent basis and better. First class collateral loans yield 7 per cent, and with collateral not so well known up to 8½ per cent. During the last week of the month call notes were fairly uniform at from 7 to 9 per cent, but got down as low as 6 and up as high as 14.

Land settlements in the middle west were accomplished on March 1 without any disturbance. The payments were very large and caused unusual fluctuations in bank deposits in some localities for a few days, but these effects were temporary. Reports scarcely mention defaults, and evidently they were negligible in number, as land values are said to be firm or advancing.

The Federal tax payments due March 15 were accomplished without much resort to the Reserve banks, the total bill holdings of the latter on March 5 being $2,922,542,000 and on March 26 $2,901,109,000. Payments were effected largely in Treasury certificates.

The position of the Reserve banks is slightly easier than it was a month ago. The total earning assets on February 27 aggregated $3,279,232,000, and on March 26 they were $3,191,031,000. Total gross deposits were $2,911,302,000 on February 27 and $2,541,692,000 on March 26. Federal reserve notes in actual circulation were $3,019,984,000 at the former date and $3,048,039,000 at the latter date. The reduction of liabilities helped to maintain the reserve percentage despite gold exports. The ratio of total reserves to combined deposits and notes was 42.5 on February 27 and 42.7 on March 26.

There is much evidence that one explanation of the high state of bank loans is to be found in the railroad embargoes and car shortage. Conditions in New England have been very bad for the past month, with goods piling up in the manufacturing towns and consequent inability to bill against them. In Boston it is said that approximately $100,000,000 worth of Egyptian cotton has been tied up partly by a port strike and partly by the governmental requirement that such imports shall be fumigated as a precaution against the pink bollworm.

Governmental Finances.

The officials of the Treasury express confidence that the March revenues from income and excess profits taxes will exceed the estimate of $850,000,000 upon which recent Treasury calculations upon the year's revenues have been based. Unless its forecasts are upset by large appropriations by Congress for new objects of expenditure, such as the bonus for ex-soldiers, the floating debt will be materially reduced in the current fiscal year which ends June 30, 1920, and again in the following fiscal year. This is greatly needed as a step in deflation.

After the retirement of Treasury certificates due March 15 there remained outstanding the following:

Maturing June 15	$728,130,000
Maturing Sept. 15	657,469,000
Maturing Dec. 15	703,026,000
Total	$2,088,625,000

Another offering was made on March 15 of tax certificates bearing 4¾ per cent, which has been closed, it is understood, with about $200,000,000 subscribed. A further offering at the same rate has been made, dated April 1 and maturing in three months.

The Credit Situation.

The whole credit situation was helped very much sentimentally by the announcement that the British and French governments would pay the $500,000,000 joint loan which will become due in October next. It was a moral tonic which had immediate effects. Proof that these countries were not bankrupt was hardly necessary, but sentiment in the exchange and investment markets had been despondent to a degree that required a cheerful surprise of this kind to dispel the prevailing pessimism. The announcement had that effect for several reasons, the most influential of which, perhaps, was the promise that a considerable amount of gold would be forthcoming which would serve to replenish our reserves and make good the losses which we have seemed destined to suffer by exportation to Argentina and Asia.

The gold situation was on everybody's nerves about March 1st, and we discussed it at some length in the March Letter. The excess of gold exports over imports in January was $35,740,487, and in February $38,527,000, a total since January 1st of $74,267,487, and the margin of excess reserves in the Federal reserve system was so narrow as to arouse misgivings that more drastic action might be taken by the authorities for the reduction of loans. The announcement that the loan would be paid, together with a rumor that gold shipments would begin at an early day, instantly relaxed the tension. At about the same time, the demand for gold on account of India eased off in London to such an extent that two lots aggregating about $3,000,000 were obtained for the United States, and another $3,000,000 came in from Canada. Altogether, these incidents had the effect of making everybody more cheerful, although they have not worked any radical change in the immediate situation.

It still remains to be developed how much gold will come in payment for the Anglo-French loan. It is known that the British government has been accumulating credits here by the sale of American securities and Australian wool, and has been buying the Anglo-French notes in the open market. Probably its share of the loan will be largely cared for in that way. It is not so clear how the French government will take care of its half of the undertaking, but special efforts have been made to bring the last internal loan to the attention of investors in this country, and the subscriptions

doubtless have aggregated a considerable amount. The first installment on the gold payments, approximately $9,000,000, arrived on March 28. The fact that shipments have begun so early indicates that the total amount is expected to be a large sum.

No Basis for More Credit.

The most that can be said for this promise of gold is that it relieves to some extent the anxiety as to diminishing reserves. It affords no reason for expecting a renewal of credit expansion. The Federal Reserve authorities have been moving cautiously in their policy of freeing the reserve banks from war paper and getting those institutions back into normal condition, but there is no reason to doubt that they are firm in the purpose. Whatever gold is received will be all needed to provide against the exports which must be counted upon, and it would be very short-sighted to modify the loan policy which has been adopted. With the credit expansion of the last year as a warning, and the revelations which are being made of speculative investments by means of bank credit in sections of the country where liquidation might have been rapidly accomplished, it is plain that for the good of the country the situation should be held firmly in hand. The country should be urged to pay its debts and practice for a time the old-fashioned policy of earning and accumulating before spending or investing. That is the only way of getting fore-handed, of getting control over the price situation or of bringing bank liabilities into proper relations to the bank reserves.

Argentine Gold Imports.

There is a renewal of reports that the Argentine government will grant a loan of $200,000,000 to Great Britain, France and Italy to enable those countries to buy Argentine products. A bill for this purpose passed the Chamber of Deputies several months ago, but as it has never come to a vote in the Senate the conclusion was drawn that the latter body was probably against it. Well-informed persons now express the opinion that sentiment for the loan is growing, as it is needed to assist the country in marketing this year's crops.

If the Argentine loan is granted it will be likely to curtail the three-cornered transactions by which gold has been forwarded to Buenos Aires from the United States on British account.

Foreign Trade and the Exchanges.

Foreign trade in February was down $84,000,000 in merchandise exports and about $6,000,000 in imports from January. There seems to have been no marked change in the character of the trade. Exports of meats and dairy products were light.

Sterling exchange has made a great recovery since it touched the low mark of $3.18 early in February. This seems to have been due in part to the sentimental effect of the announcement that the Anglo-French loan would be paid, even if gold must be shipped for the purpose. Gold shipments to pay the loan could have no bearing upon commercial exchange rates, while if resort was had to the exchange market for any part of the means of payment the effect would be adverse. Nevertheless, British and French credit rose sentimentally and both sterling and francs reflected the gain.

Sterling continued to gain, doubtless because supply and demand have favored the rise. Offerings of sterling bills have been light throughout the month, while the demand for sterling has been good. Although cotton continues to go out at a good rate, apparently the bills have not come on the market. The situation has caused some strengthening of opinion that perhaps the worst has been seen in sterling. We are getting into the season of the year when our exports of agricultural products usually decline, and British exports are steadily increasing.

On the other hand the French and Italian exchanges had a relapse in the latter part of the month, falling nearly to the lowest points heretofore touched.

The table of monthly quotations is as follows:

	Unit Value	Rate in cents Feb. 28	New rate Mar. 29	Change from Par	Depreciation in %
Canada	1.00	.8600	.9230	.0770	7.7
Germany ...	.2382	.0105	.0135	.2247	94.3
Italy	.1930	.0543	.0503	.1427	73.9
Belgium	.1930	.0727	.0730	.1200	62.1
France	.1930	.0702	.0695	.1235	63.9
England ...	4.8665	3.3800	3.9450	.9215	18.9
Switzerland.	.1930	.1613	.1750	.0180	9.3
Holland	.4020	.3700	.3725	.0295	7.3
Denmark ..	.2680	.1500	.1875	.0805	30.0
Norway	.2680	.1725	.1925	.0655	24.4
Sweden	.2680	.1875	.2185	.0495	18.5
Spain	.1930	.1740	.1775	.0155	8.0
Argentine ..	.9648	.9850	.9830	*.0182	*1.8
Japan	.4985	.4800	.4750	.0235	4.7

* Premium.

There has been a lessening of the demand for exchange on China and India, and silver has fluctuated widely during the past month, the quotations falling below $1.20 per ounce on very light transactions, later rallying to about $1.29.

Canadian Exchange.

It has been authoritatively stated that recent shipments of gold from Canada to this country were for governmental purposes. The Canadian government has no intention of attempting to restore the exchange rate, and evidently could not afford to do so in face of the heavy balances on trade account and interest account in favor of the United States. In 1917 the balance on strictly trade account was $407,000,000, in 1918 it was $308,000,000, and in 1919, $286,000,000. Besides these balances there has been an increasing indebtedness on account of accruing interest on Canadian securities held in this country. The

total gold reserves of Canada are but little above $200,000,000, and while this is ample for the banking business of Canada, it is evident that it might be all drained away if the embargo was not maintained.

The low exchange rate of the Canadian dollar in the United States does not reflect upon Canadian credit or Canadian currency, and it is a mistake to so regard it. A prominent public man in Canada has been quoted as saying that he would not buy five cents worth from any country which did not accept the Canadian dollar at its face value. But Canadian paper currency was never intended to circulate in the United States, and cannot be used here. Moreover, it probably would not be considered desirable even from the Canadian banking standpoint to have a great increase of their currency issues outstanding in the United States.

The premium upon United States exchange in Canada is not fixed or regulated in the United States. It results from the unbalanced state of trade and from the competition in Canada for Canadian credits in the United States. There are not enough such credits to meet the demand for means of payment. It is a natural trade phenomenon, and illustrates the workings of economic law. In a state of unbalanced trade all the natural influences work to restore the equilibrium. The present situation operates to discourage exports from the United States to Canada and to encourage exports from Canada to the United States. There is no occasion for impatience or ill-feeling about it. The situation is to be regretted, for it is injurious to both countries, but there seems to be nothing to do about it but let the natural forces work it out.

More Government Interference.

The Canadian government has proposed and secured an agreement among resident bond-dealers that the latter will not encourage or grant facilities for the re-sale in Canada of Canadian securities now held without the country. The reason for this policy is that something over $100,000,000 of such securities are estimated to have been resold in Canada within the last ten months, by British holders, and the government holds that this occasions a drain upon Canadian resources, tending to make money tight and depreciate the value of Canadian bonds in the home market. The bond houses have yielded to the government's request but in some instances with vigorous comments upon the wisdom of the policy. They say that it is another instance of the old attempt to eat your cake and have it too. Canada is eager to export her products to England, and of course wants to be paid for them. England is ready to buy them, but the trade balance is heavily in favor of Canada and exchange rates for British sterling are at a discount. The natural remedy is by the return of British-held Canadian securities to the home market. What better medium of payment can Canada expect England to find? Would she rather keep her products and have England keep the securities?

Canadian Gold Production.

The Canadian government is dealing liberally with the gold producers of that country by buying their product at the Ottawa mint and paying them in New York exchange. This is practically the same to the gold operators as allowing them to export their product to the United States and realize the premium, as the exporters of other products are doing, but the Canadian Treasury secures the gold.

Waste of Capital.

The country is plainly suffering from a dearth of investment capital at the present time, at least where it is accustomed to be found and for essential public purposes. The established investment houses which handle high-grade securities find that the market has but limited power of absorption. They are pessimistic about the ability of the railroads to raise the amount of capital required for new equipment, enlarged terminals and other facilities which are required to enable them to render proper service to the public. They ask where the money is coming from to buy new railroad bonds and stocks on a basis of normal returns, when the old issues are selling at present figures.

The investment bankers likewise talk discouragingly about the prospect for selling foreign securities in this country. They agree that the United States ought to buy foreign securities. Every consideration of self-interest and of international relations calls upon us to extend credit to the countries of Europe at this time, but how can it be done in the present state of the investment market? With Liberty bonds selling on better than a 5 per cent. basis, and any number of good bonds and preferred stocks to yield 6 or 7 per cent. and upwards, where is the ground for hope that large sums can be had for foreign investments?

Promiscuous Flotations

But while this is the situation in the regular channels of distribution, there is evidence that a great amount of new capital is available in other fields and that much of it is being dissipated and wasted in ill-advised ventures. The high prices for farm products and high prevailing wages have created a large body of new and inexperienced investors throughout the country who are unfamiliar with the risks of new business enterprises, uninformed as to standard securities and an easy prey to skillful stock salesmen. Even during the war much activity had developed in organizing local companies, but during the past year they have multiplied and the army of salesmen has been increased until every prosperous locality is infested.

The state of Iowa has been an active field for

these efforts, and by the middle of 1918 the situation had become such that the Iowa Bankers' Association passed resolutions warning the public against these irresponsible flotations and urging the members of the association to discountenance them. The resolutions were as follows:

"WHEREAS, we have within this state a swarm of private corporation promoters who are engaged in the business of starting new corporations for the sole purpose of securing promotion salaries, including exorbitant commissions paid to agents for the sale of stock; and as a means of reducing this evil we call upon the bankers of Iowa to refuse the inducements now so freely offered for their influence in making sales of stock in these concerns, most of which are unnecessary, if not unsound.

"We urge the bankers of Iowa to refuse to buy notes given for purchase of such stock.

"We condemn the practice of any bank officer or employee receiving or accepting compensation, directly or indirectly, by reason of his connection with any promotion scheme.

"We further recommend that a law be passed altogether prohibiting the payment of any commission whatever to stock salesmen, promoters, bankers or others.

"We especially urge bankers to refuse to write letters recommending not only the stock as an investment, but also the men connected with the promotion of the enterprise."

The March, 1920, Bulletin of the Iowa Bankers' Association is devoted entirely to the same subject. The first paragraph is as follows:

Never was there a time when more stock promotion schemes have been foisted upon the people of this state. Promotions of every kind, description and color are being presented to the unsuspecting farmers, wage-earners and others, but particularly to the farmers. There is probably not a banker in Iowa who cannot tell of some "hair-raising" procedure, under which "smooth-tongued" and "glib" stock salesmen have loaded some farmer customer. The more warnings that have been issued by business and professional men, bankers, farm organizations and commercial clubs, the greater the number of "suckers," as they are termed, are uncovered by the army of stock salesmen with which Iowa is infested.

A prominent feature of the operations of these salesmen has been the exchange of their stocks for Liberty bonds.

The Des Moines Daily Capital, discussing recently the collapse of a corporation the stock of which had been sold to the extent of over $3,000,000, said:

The industry of stock-selling in Iowa has been almost without limit. Men with gifts for salesmanship left other occupations to become stock sellers. Their number has been so large that they have held meetings for discussion of ways and means of stock-selling. The people were found to be easy marks. They yielded up their cash readily. If they could not pay cash they gave their notes and the notes were discounted at the banks. The commissions paid to stock salesmen have been stupendous. The business developed many varieties of ingenuity. Stocks were sold at par. If the sales were easy stocks were advanced to a large premium above par. In some cases the salesmen contracted for the stock at a certain price with an agreement that all above that amount was to be theirs.

The large and unnatural amounts made by stock sellers has done great damage to legitimate industry. It will be hard to make a young man content to work for $40 per week in some legitimate business after he has put in a year in stock selling at a profit of $5,000 per month. There were stock salesmen, plenty of them, who were making $2,000 per month. Others made $3,000 per month, and in some cases the sums were beyond all reasonable comprehension.

Specimen Operations.

The method of some of these flotations is illustrated by the following statement from a prominent man, who had been a member of the Iowa State Senate, and who was an official of a company organized to manufacture farm tractors. The stock was put on the market, and the methods of the flotation were such as to bring the company into court. The official made the following explanation:

"We made a contract with this firm granting them exclusive right to purchase our stock at a stipulated price upon their paying in advance for same. Most of their sales were on the installment plan. Under this arrangement the broker paid us a total of $13,000, for which we issued stock in the Farmers' Tractor company. In the meantime the firm assured us repeatedly they had sold upward of $100,000 and would soon begin turning over to us large sums of money. We later discovered the broker had collected $66,000 as partial payments on stock sold. We had received but $13,000."

Another case is reported as follows:

STORM LAKE, Ia., Feb. 17.—Suit has been filed by Charles J. Schmitt, of Maple Valley township, against the Midland Cattle company, asking that certain moneys and promissory notes given by the plaintiff for stock in the company be returned to the plaintiff.

The petition alleges that he has paid money and given notes to the company for $20,000 worth of stock. The plaintiff alleges that it was represented to him that the company would be able to secure money from the federal reserve bank at 3 per cent and that the profits of the company would run as high as 40 per cent. The petition sets forth that he originally bought $10,000 worth of stock and that later it was represented to him that if he would take $10,000 more in stock the salesman would resell it for him before the notes came due at not less than $125 per share, or a profit of $25 per share. He took another $10,000.

The First National Bank of Sheldon, Iowa, has recently published a warning advertisement in local newspapers reading in part as follows:

A certain retired farmer in Sheldon recently purchased around $40,000.00 of stock in a speculative enterprise located not many miles from here, and the other day the promoter was in Sheldon offering this retired speculator's notes to the Sheldon banks at $10,000.00 discount.

Needless to say the banks of Sheldon did not want paper on a man who plunges into debt in this reckless manner.

The promoter selling the stock probably gets another $10,000.00 for his profit, that makes $20,000.00 for closing a $40,000.00 deal.

In other words the expense takes half the money at the start. It must be a shady deal that takes half a man's money at the very beginning. Probably the other half will be taken from him shortly.

A Meat Packing Company.

Another case of state-wide interest was that of a company organized to establish a meat packing establishment at Des Moines. In this case an especial appeal was made to farmers, upon the representation that it was intended to give them an opportunity to enjoy the profits which had been long monopolized by the "big interests." They were told that the stock of the large Chicago companies was closely held and unobtainable, although several of these stocks are traded in daily on public exchanges. Swift & Company have 35,000 stock holders.

The Armour preferred 7 per cent stock, a choice investment, is changing hands at about par, while Swift & Company common, paying 8 per cent and having a bona fide book value of about $160 per share, is selling at this writing at about $123 per share. These prices are low, but they have been low for several years, owing to the over-burdened state of the investment market. Sales are reported daily in the Chicago newspapers, which circulate all over the state of Iowa, but with this opportunity to get into these old companies, with their experienced organizations, established business and long record of successful operation, thousands of farmers bought stock at par in this new promotion, which doesn't even own a packing plant, and confessedly had yet to create an operating organization and build up a business. Moreover, a large percentage of what they paid for this stock was absorbed by promotion expenses. The attorney-general of the State alleges that the company is insolvent before beginning to put up its buildings and at his instance a local court has appointed a permanent receiver. Over $3,000,000 of stock was sold.

Extravagant Commissions and Discounts.

The editor of the Iowa Homestead, a farm journal published at Des Moines, describes a common procedure in such flotations as follows:

> Let me show how a large number of the heavily capitalized companies, now selling stock to farmers in the state, through salesmen paid large commissions, are operating. They sell stock to a farmer to the amount of $1,000 on which the company receives notes for $750, the remaining $250 having been pocketed by the stock salesman. This note for $750 is offered to some bank at a discount of say 10 per cent, which is $75 off on a note of $750. Even then the purchasing bank seldom desires to pay out actual cash, but often issues a certificate of deposit, without interest, due at the maturity of the notes. For the $1,000 worth of stock subscribed for, the company now holds a certificate of deposit for $675—the original $1,000 less the $250 paid the salesman and the $75 discount allowed the purchasing bank.
>
> The companies are nearer their ready cash than before, but they do not have the real money. The certificate of deposit in the purchasing bank is offered a second bank and again a discount is made, often running as high as 15 per cent. This means that the company offers the $675 certificate of deposit for $573.75, which is 15 per cent less than the face value. The company now has its money (when the second bank buys the first bank's certificate of deposit), but it has only $573.75 for $1,000 worth of stock. In a word, it starts out whatever business it may or may not venture into, with but little more than one-half the cash which it is supposed to have, for the stock subscribed.

Competent authorities have estimated that the aggregate of stock in new companies floated in the State of Iowa last year would amount to several hundred millions of dollars, and a large part is classed as highly speculative.

A Kansas Scheme.

These operations have been going on in like manner in other states, oil companies being the most common. A Topeka letter says:

> The rise of the "unit" system made a particular appeal to the speculative investor. The one-eighth royalty retained by the land owners was the basis of high finance. Purchasing, say, one-tenth of one-eighth for $10,000 in a field where some production had been found, this fraction was capitalized into thousands of units, each purporting to be an undivided interest in the fraction. In some instances a $10,000 fraction was the basis for 100,000 units sold at $20 each, and these were scattered over the State with a rapidity that made many fortunes. In one instance the units numbered 5,000,000 at 10 cents each. Complaints to the blue sky board showed that some owners of units would not receive 1 per cent on their investment until the property, yet to be developed, yielded $3,000,000 worth of oil. Widows' estates were frequently wholly invested in these securities.

Loss of Capital.

The loss of capital which results is deplorable not only on account of the investors who have been defrauded, and who in many instances have anticipated future earnings in which they may suffer further disappointment, but on account of the country's present great need for capital.

The country faces a critical situation as regards the railroads. They need literally billions of dollars for equipment and improvement, but the regular channels of investment are over-filled with offerings, and of course the railroads cannot offer inducements to compete with these fake propositions which are gathering up the available capital of the rural sections. While this saturnalia of waste has been going on in Iowa there has been serious protest within that State against the new railroad law, providing that rates shall be sufficient to allow the roads to earn in the aggregate an amount equal to 5½ per cent upon their total actual value as determined by the Inter-State Commerce Commission. As we have repeatedly pointed out, this is not a guaranty upon outstanding railroad stocks or to the individual roads, but of an aggregate sum for which the roads must compete. Now that the promotion period in railroads is past, and every entry in railroad property accounts is supervised by the Inter-State Commerce Commission, why should not all parts of the country contribute to the sum of new capital needed to restore the operating efficiency of the roads? Iowa and Kansas have suffered millions in losses during the past six months be-

cause of inadequate transportation facilities, and there can be no relief except as the railroad companies are able to raise new capital, which in the present world situation is very difficult. Now that the railroad act is a law, would it not be well for the people of these western states, where money seeks investment so eagerly, to either refrain from attacking it as too liberal to investors, or take some of the railroad investments themselves?

People do not sufficiently realize the public interest in capital accumulations, and the public loss when savings are wasted. The Iowa Bankers' Association is to be commended for its action touching upon stock flotations. The bankers have far more to gain by safeguarding their communities against doubtful investments than from any profits that such transactions may yield incidentally to them.

Credit Expansion and Tight Money.

Inasmuch as stock sales seem to be commonly financed by promissory notes, which are disposed of to local banks, the campaign described above evidently has contributed to the state of inflated credit and tight money which exists over the country.

The great activity in farm lands has been another important factor. It is not to be regarded in the same light as the flotation of worthless stocks, for there is a basis of real values even though the movement may be overdone for a time, but farm sales must have tied up a large amount of capital. A trust company in Des Moines has conducted an inquiry which reveals that sales of 19,600 farms were closed up in Iowa on March 1st last, the custom being for farm transfers contracted during the preceding year to be made at that date. The aggregate amount involved in those transfers is not given, but other reports show that in each of several counties the total was approximately $10,000,000.

That there has been no check as yet to the land movement is indicated by the following press report, which is remarkable in view of the number of acres in the tract:

> SPENCER, Ia., March 13.—What is believed to be the biggest real estate deal made in recent years in the state of Iowa, was consummated by Robert T. Colter of Spencer when he bought the well known Allan Grove Farms, adjoining the town of Hospers in Sioux county. Posession will be given March 1, 1921.
>
> Mr. Colter paid $900,000 for the tract of 2,322.86 acres or an average of $387,457 the acre. Mr. Colter came to Spencer from Muskogee, Okla., last May and bought of M. E. Griffin, 1,571.48 acres for $353,583. By August he had disposed of his holdings for a total of $457,647.75, making a net profit of $104,064.75 in three months.

The land salesmen have been reaping a great harvest in commissions. In recent litigation involving a land-selling company, one salesman testified that he had received $455,000 in salary and commissions for seven months' work.

Federal Taxes.

The Secretary of the Treasury has submitted to the Chairman of the Ways and Means Committee of the House of Representatives a series of recommendations for the simplification of the excess profits and income taxes, and a reduction in these levies after 1922 so far as income re-invested in industry is concerned. The Secretary says that in his opinion it would be unsafe to reduce now the income and profits taxes to be collected in the calendar year 1920 and 1921, which he is counting on to retire the present floating indebtedness, but he can see nothing in the financial prospects for the calendar year 1922 or thereafter to forbid the changes which he recommends. His proposals include several not materially affecting the revenues, but the notable features are the recommendations that a flat tax upon profits in excess of distributed earnings be substituted for the present graduated rates of 20 and 40 per cent, and that the surtaxes upon personal incomes be reduced as to that portion of incomes which are saved and re-invested in business.

"No reduction," says the Secretary, "is urged in respect to income spent for unnecessary or ostentatious consumption; income saved and invested in property or in business yielding a taxable income should be taxed at a lower rate; income spent for consumption or invested in tax-exempt securities should pay at established rates, both the normal tax and sur-taxes. To the extent that it falls on savings the income tax should be reduced; to the extent that it falls on waste it should be maintained or even increased."

This is the first clear recognition that has been given from an official source of the truth that earnings and profits which are saved and converted into productive capital should be regarded in a different light from income which is spent and consumed for the personal benefit of the owners.

The Public Interest in Industry.

There has been no recognition of this fact in our tax legislation and there is little recognition of it in current discussion of wealth distribution. It is commonly assumed that all income inures wholly to the benefit of the recipient and that all property is devoted wholly to the benefit of the owner. The radical doctrines of the day are based upon this assumption, although common observation shows it to be false. The industries are all privately owned, but they are engaged in producing for common consumption, and all development and improvement in them inures to the benefit of the great body of consumers.

To whatever extent the profits of an industry are turned back into the industry to enlarge and cheapen production, the public enjoys the benefits. It is only to the extent that the owners withdraw profits for expenditure upon themselves that they receive benefits. We referred some

months ago in illustration of this principle to the case of Jackson Barnett, an Indian, of Oklahoma, who has a large income from oil wells upon his land, but who has continued to live simply, upon an expenditure of about $50 per month, while investing over $800,000 in Liberty bonds. He is consuming no more, withdrawing no more from the common social supply, than before he became wealthy. His income has been turned over to the United States Government for its uses. It is true that he receives interest upon this investment, but if he re-invests the interest the situation remains unchanged.

This illustrates the general situation as to wealth distribution. All wealth employed in production for the public market is socially employed, and may be regarded as a social fund, in the same sense as though the title to it was actually in the State. The real distribution of wealth, therefore, is not to be measured by ownership but by consumption.

When this view is accepted it will be seen that so far as practicable taxation should be levied upon that part of a rich man's income which is devoted to private consumption rather than upon that part which is returned to industry and devoted to public purposes. The grievance of society against large private incomes is confined to that portion of such incomes as may be dissipated in undue and wasteful private consumption.

An Economic Demonstration.

The high taxes upon business profits have demonstrated to the satisfaction of everybody who has had opportunity to become familiar with their workings that the doctrine of confiscation is fallacious. They have accomplished a convincing exposure of the falsity of the whole socialistic theory, that you can seize upon the product of an individual's labor without diminishing his interest in production. These taxes, it is agreed, have not only diminished the amount of capital available for the expansion of industry and reduced the incentive to enterprise, but they have encouraged extravagant and wasteful expenditures, resulting in loss to the revenues as well as to industry. They violate the recognized principles of social economy.

Profits and Taxes of a Coal Company.

A correspondent has laid before us an illustration of the unjust workings of these taxes, in the case of a coal company which began operations less than five years ago. The case is the more interesting because coal companies are alleged to have made exorbitant profits. For the first three years of its life this company's operations resulted in cumulative losses, but in the year 1918 with a large output and good prices it made a profit which reimbursed it for the previous losses with enough over to yield about 2.4 per cent interest on the investment, but the government levy took all the net gain and a part of the recovered capital. We take the liberty of using the following extract from a private letter relative to this case, suppressing names, for the light it gives upon the general effects of this taxation:

The case of the coal company is a good illustration. Its operations for 4⅜ years with an average invested capital of $575,000.00 shows a profit of a little less than 2.4% per annum, yet this modest profit, as well as part of the capital of a company several of whose stockholders are poor, and have small amounts invested, and sorely need a little income from them, is taken bodily by the government whose financial experts admit frankly and cheerfully that the proceeding is stupid, outrageous and confiscatory. It might be thought that this is a very exceptional case, but it is not. There are thousands of cases closely resembling this one. Certain lines of business which have fairly even profits from year to year such as banks, railroads, public utilities, etc., are not apt to be hard hit by the excess profits law, but a large number of concerns in mining, iron, steel, and many other lines which are proverbially in the "Prince or Pauper" class are its victims. The iron and steel business, as you are no doubt aware, has for the last forty years been running in cycles of about seven to nine years making little or nothing, or perhaps running a little behind for say, five or six years and recouping in one or two boom years. It is easy to see how in such cases a tax like that of 1918 if imposed over many years could easily take all the profits over these same years.

England in such cases takes the average income for four years, combining that of the preceding three years with that of the year taxed. Mr. Roper's experts also freely admit that this is a very much better method than ours.

This kind of taxation, of course, increases enormously the cost of commodities. It might be that in the case of a single company an increase in its costs would not allow it to raise its prices, but in a business like producing coal, for example, if the cost of say, 20% of the production of the country is raised a dollar a ton the price to all consumers is raised correspondingly just as surely as if the cost of all producers were raised the same amount. The effects of raising the costs of necessaries by unfair taxation are worse than those of increasing prices by profiteering. The latter ceases quickly when real competition starts. The increase of costs on the other hand persists and it may take years of hard struggling accompanied by strikes, riots and misery to get down to normal again.

The system in practice is apt to work out about as follows:

The managers of a works don't feel much like working themselves to a frazzle if they know that all the results of their energy will be confiscated and they may, if their plant is showing fine profits, become unduly liberal in adjusting wages. A foreman asks for a raise of $1,000.00 a year. Ordinarily $200.00 would be considered about right, but the management feel in the back of their heads that if they don't give this man $1,000.00 the government will take $824.00 of it and waste most of it at Muscle Shoals or some other place where work is done in an equally wasteful fashion, and they grant the increase. All this is easy, but when they later on have to come down to earth again it will be a different story.

If this country could have a reasonable tax law in the near future and would promptly repeal the Lever Act and stop people with the presidential bee in their bonnets from rushing in and abolishing the laws of nature and economics by injunction, it would save this country an amount of toil and misery over the next twenty-five years which would stagger the imagination.

If we had a well devised tax on the sale of commodities the people of this country would pay the

amount of revenue received by the government. Under the present scheme they probably pay from five to ten times that amount. While some of the difference goes to the profiteer a vastly greater portion is eaten up in the extravagance, waste, loss of efficiency and general demoralization, and the lowering of the morale of industrial organizations which are sure to accompany such a faulty system.

In this connection it may be noted that William B. Colver, of the Federal Trade Commission, speaking before the National Wholesale Drygoods Association, characterized the excess profits tax as "one of the corner-stones of the present unhealthy and intolerable price structure in the country". The tax, he said, was not designed as revenue measure, but as a profits equalizer between different cost producers under fixed price system during war. Tax is passed on until four or five dollars is taken out of some one's pocket for every dollar reaching the Treasury. Mr. Colver declared commodity prices must come down of their own accord or they would be forced down by world conditions affecting American prosperity.

Weakness of Governmental Management.

In taking leave of official life at Washington, the Hon. Franklin K. Lane, after seven years in the President's cabinet as Secretary of the Interior, following a somewhat larger experience upon the Interstate Commerce Commission, closed a very interesting review of his administration of the Interior Department with a few pertinent and instructive comments upon official life and governmental activities. They are especially pertinent at this time, when so many people of comparatively little practical experience in affairs themselves are strongly inclined to enlarge the official functions by having the government embark upon industrial activities. That part of his statement is as follows:

> And now in parting, let me say a general word as the fruit of my experience here. Washington is a combination of political caucus, drawing room and civil service bureaus. It contains statesmen who are politicians and politicians who are not statesmen. It is rich in brains and in character. It is honest beyond any commercial standard. It wishes to do everything that will promote the public good. But it is poorly organized for the task that belongs to it. Fewer men of larger capacity would do the task better. Ability is not lacking but it is pressed to the point of paralysis because of an infinitude of details and an unwillingness on the part of the great body of public servants to take responsibility. Everyone seems to be afraid of everyone. The self-protective sense is developed abnormally, the creative sense atrophies. Trust, confidence, enthusiasm—these simple virtues of all great business are the ones most lacking in government organization. We have so many checks and brakes upon our work that our progress does not keep pace with the nation's requirements. We could save money for the government if we had more discretion as to how we should use that given us. For the body of the civil servants there should be quicker promotion or discharge and a sure insurance when disability comes. For the higher administrative officers there should be salaries twice as high as those now given and they should be made to feel that they are the ones responsible for the work of the department; the head being merely an adviser and a constructor of policies. As matters are now devised there are too few in the government whose business it is to plan. Every man is held to details, to the narrower view, which comes too often to be the department view or some sort of parochial view. We need for the day that is here and upon us men who have little to do but study the problems of the time and test their capacity at meeting them. In a word we need more opportunity for planning, engineering, statesmanship above, and more fixed authority and responsibility below.

"The self-protective sense is developed abnormally, the creative sense atrophies. Trust, confidence, enthusiasm—those simple virtues of all great business—are the ones most lacking in government organization." "There should be quicker promotion or discharge." "For the higher administrative officers there should be salaries twice as high as those now given."

Secretary Lane has named some of the weaknesses of governmental administration, although not all. He could tell also of the want of coordination between the Executive and the Legislative Departments, and the want of continuity of policies by reason of changes in the personnel of the Congress and of the Departments, but he has said enough to suggest the inherent weakness of governmental management. The idea of having the government take over the important industries of the country can find lodgment only in minds of people who conceive of the industries as merely repeating a routine of operations instead of changing constantly under the stimulating influence of vigorous, ambitious, progressive life.

The Hon. Franklin D. Roosevelt, Assistant Secretary of the Navy, has written a letter in which, after referring to certain defects in departmental organization, he lays emphasis upon the failure to pay adequate salaries for demonstrated ability in the governmental service. He says:

> "I do not hesitate to say that I could run the Navy Department more efficiently in every way with 15 per cent fewer employes if I could have authority to take the salaries of these employes and add the amount, in my discretion, to the pay of those who are experts in their own line of work and who would command far higher pay in private employ. I have in mind the men who are making good, but will not stay under present conditions."

The faults which these officials describe are inherent in the government service. It is inevitable that the public business will be conducted by general rules, with a relatively small exercise of discretion and personal judgment, and upon the general assumption that everybody is the equal in ability and deserts of everybody else. Nor is that situation likely to change, for those are the popular ideas of the time.

Inspiring Discontent.

This is a period of criticism and widespread discontent. In a changing and progressive society there are always conditions which may be bet-

tered and everybody should want to move forward, but there is also a great amount of ignorant and destructive fault-finding which simply creates distrust and confusion. The farmers prospered generally during the war, and most farm products are still bringing remunerative prices, but there have been declines in recent months. We have been giving warning for the last year that these were likely to come and have consistently urged that as prices of farm products declined the farmer would have just claim to lower prices upon the things he had to buy.

Reports from the west say that farmers have been taking severe losses during the past winter upon cattle fattened upon high-priced corn, and grain prices have declined also. This, of course, is regrettable, but it is not the first time that high prices have broken, either in farm products or in other commodities. It is extraordinary, however, to read comment like the following, coming from a widely circulated farm journal of deservedly high standing:

> We have no proof that this (drive on farm prices) has all been planned out by certain master minds pulling the strings in Chicago, New York, London and Paris, but the circumstantial evidence is pretty strong. A lot of farmers need money by March 1. Grain has been dammed back in the country through the difficulty in getting cars to move it. So everything is prepared for a very heavy drop. When corn was selling at very high prices, it was very difficult for farmers to get cars. Now that the price is going down the farmer is assured that he is going to have all the cars he can use. It's a great game. It furnishes one more evidence of the need of the sort of organization we have been urging for two years past. The farmer has got to employ men who understand this big game to work for him. Without such help he can do nothing except draw into his shell and cut down production.

Here is a suggestion that cars were perhaps held back when speculators were interested in high prices and supplied freely when they were interested in breaking prices, and that prices of farm products have been put down by a "great game" of manipulation. This is a charge that can be neither proven nor disproven, and which people will believe or disbelieve according to their opinion of its inherent probability. In the central markets, where there is general familiarity with the influences which make prices, it will be treated as too preposterous for comment; but in the farming districts no doubt many will be disposed to accept the opinion, coming from a reputable source.

The car supply has been in the hands of managers representing the government, and there is not the slightest reason for impugning their integrity. Manufacturers, merchants, exporters, in fact all shippers, have been annoyed and embarrassed by the deficiencies of the railroad service, in the same manner as the farmers. There is no mystery about the state of the railroads; they need to have a large amount of new capital expended upon them, but the owners of capital have been preferring other investments.

It is true that prices were high at the time when farmers could not get cars; the slow movement of the crop would be itself an influence for higher prices in the central markets; but prices were still higher last summer before the new crop was made; they have been declining since July and the falling off in the export demand, due to the exchange situation, probably has been the chief factor in the whole downward movement. It is a sufficient explanation by itself.

Lowering the Efficiency of Society.

The chief comment, however, to be made upon such fault-finding is that it tends to disrupt the social organization and to lower its efficiency, to the injury of all. The suggestion is thrown out that unless conditions are made satisfactory the farmer can do nothing except "draw into his shell and cut down production." This is the same virus that is constantly instilled into the wage-earner, by telling him that increased production only increases the employer's profits, with the result that the farmer must pay more for all that he buys. There can be no progress with this spirit of suspicion and antagonism dominating every branch of production, for it is always possible to put a sinister interpretation upon events. Society can be kept in a constant turmoil by this vague and insidious class of criticism. The enemies of the existing order proceed upon the theory that it is possible by this means to create such a general state of discontent that a revolution will result. That is their "great game," and it is unfortunate that many people who do not at all sympathize with that purpose should ignorantly help them in playing it.

Common Interest in General Prosperity.

The idea that the great interests of the business world are engaged in a continuing conspiracy to wrong the farmer or the laboring man is of course a complete misconception. The great manufacturing industries are all interested in the widest and largest possible distribution of their products, and this is dependent upon the purchasing power of the whole people. Traders, banks, railways, and every interest worth mentioning are interested in general prosperity. Moreover, it is a great mistake to suppose that the business interests of the cities are united upon common questions of opinion and policy. They are divided and in competition. Upon the League of Nations, and national and social questions generally, there are as many opinions in Wall Street as there are elsewhere. Only very ignorant people are guided in their opinions by the purpose to be against what some one else favors. As to whether wheat will go up or down there is always a division of opinion and of interest in the markets.

All Improvements and Economies Welcome.

It is right, of course, for farmers to investigate the markets and to know every turn of the road between themselves and the consumer. The farmer

should not regard himself as outside the business organization but as a part of it; there is as much responsibility upon him to deal with the social problems as upon anybody, and he will find an honest desire to cooperate with him in all branches of business life. Everything that can be done which actually will simplify the organization for distributing and exchanging the products of industry and effect economies between producer and consumer is desirable. Every such saving, which cuts out unproductive effort or expense, is a gain to society. There is no occasion for any controversy about such efforts. They are welcome; they justify themselves, if successful, without argument. There is no occasion for acrimony or for political agitation in accomplishing these changes. No class conflict is involved in them. Everybody in the social organization must justify his claims to consideration by the services he is able to render.

Cooperation to be Encouraged.

It is reported that one of the organizations of railroad employes has either established factories or contracted with factories for the making of clothing, gloves, etc., for its members. This is an interesting experiment, well worth trying. There is talk of cooperative arrangements between organizations of farmers and wage-earners, and all such experiments are worthy of study and trial. There is economy in organized buying because it relieves the producer of cost and expense in marketing his products. It can be made successful if people will work together.

The business men of the cities are actively competing with each other, and are constantly on the look-out for new methods which will enable them to serve the public more efficiently and economically. The mail order houses, chain store systems, cooperative manufacturing schemes, etc., illustrate these efforts. They are not all successful, nor are all the cooperative enterprises inaugurated by farmers and wage-earners successful, but the field is open and free. Progress along this way is not so exciting as by revolution, but it is very much more sure without being anywhere near so risky.

Responsibility to Society.

The great need of the time, in the midst of all the agitation, is a larger sense of responsibility to the whole social body on the part of every class and group. There is need of clearer appreciation of the fact that each individual and group is bound to seek its own welfare by means which also promote the welfare of all, and not by means which are harmful to the social body. This is not the time to emphasize group interests. There is too much class consciousness and exaggeration of class grievances. Nobody makes much headway by dwelling on his grievances, particularly if they are imaginary, which is usually the case. It is perfectly certain that if every group and individual in the industrial organization would determine for the next year to give its best efforts to the single-minded purpose of increasing production so far as lies in its power, a wonderful improvement in general conditions would ensue, and every group and individual would share in the benefits.

Live Stock Prices and Conditions.

Touching upon the decline in the price of meats which has attended upon the decline of exports in the past year, the "Live Stock Report," published by Clay, Robinson & Co., a leading commission house in the western markets, recently had the following to say:

> That the tremendously increased demands for meats during the war stimulated production, we, of course, know. We came to not only rely upon this war-created demand, but to look upon it as a permanent matter. Then comes word of contracts canceled, of the depreciated value of packers' stocks abroad through declining standards of exchange, of sharply reduced shipments of meats across the water. Then we find we are oversupplied. We blame the packer, because it is the universal habit—without analyzing the situation. We forget the immutable law of supply and demand. Just as surely as supply exceeds demand will values recede. It has ever been so and always will be. It is what the cattle feeder is up against this winter. It is discouraging, of course, to further production; it tends to discontent and an antagonistic attitude to whatever conditions or individuals seem in the mind of the loser blameable. Yet it is but part of the process of readjustment. We have got to learn to adapt ourselves to present uncertainties— to look ahead as far as the light will show, the light of sane judgment; to base our operations upon conservative foundation—to avoid extravagance, speculation and any attempt to discount the future.

The drought which prevailed last year over the northern section of the old cattle range territory, including the States of Wyoming, Montana and the western half of the Dakotas, was very damaging to the live stock interests and additional damage has been done by the severe winter just closed. A competent authority estimates that one-half of the cattle and sheep held in this territory were forced out last summer and fall, some being shipped out for wintering, but most of them sold. The severe storms of the winter have caused a loss of perhaps 10 per cent. of the cattle and sheep remaining in these states, and owing to the scarcity of feed subjected the stock growers to a very heavy burden of expense. The heavy snowfall, however, gives promise of good grass conditions the coming summer.

United States Steel Corporation.

The suit by the Attorney General to dissolve the United States Steel Corporation has come finally to an end, the Supreme Court by a 4 to 3 decision, two justices not participating, having affirmed the decision of the lower Court against the petition. The Court found by practical tests, as the public has long since found, that the corporation is not a monopoly in restraint or trade. It is a large factor in the iron and steel business and an influential factor, but it is not a controlling factor in the sense of being able to fix prices at

will, and in the practically unanimous opinion of the trade its influence is a wholesome and beneficial one.

The history of this Corporation illustrates a fact which is generally true of the large business concerns, to wit: that the fears which they inspire are not realized. The opposition to them is usually inspired by apprehensions about what their policies may be. The charges seldom relate to injuries that have been suffered, but to injuries that it is thought may be suffered.

Experience shows that these large corporations are interested in stabilizing industry, in building up a large and steady volume of business, in protecting and serving their patrons in the most efficient manner. The Steel Corporation has a consistent record of this kind. Its influence has been against wide price fluctuations. At times the independents, who in nearly every branch of the industry have fully one-half the producing capacity, have undersold it and at other times they have been well above it, as they are now. For the last year the Corporation has exerted a powerful influence to hold prices down.

The public is interested in economical methods in industry, for in the long run economies in production tell in the selling price of the product. Even though the selling price remains the same, the public gains by economies which increase the profits of the producer, because those profits are usually invested for the enlargement and improvement of the industry, to the ultimate benefit of the public.

Development of the Steel Industry.

The steel industry, like nearly every other industry, has been developed by means of the profits made in it, and that development has been enormously beneficial to the public in cheapening the price and increasing the use of steel in all the industries. No longer ago than 1880 the total production of steel in the United States for the year was only 1,200,000 tons. In 1910 it had risen to 26,000,000. It had increased more than twenty fold while the population had not doubled. And the steel-making capacity of the country has nearly doubled since 1910. If one will consider the part which steel plays in production in all lines he will appreciate the significance of these figures.

Reminiscences of a Veteran.

Mr. Joseph G. Butler, Jr., of Youngstown, Ohio, one of the veterans of the iron and steel industry, has recently celebrated the fiftieth anniversary of his beginning in it, and in an address before the American Iron and Steel Institute he has given a very interesting sketch of the development which he has witnessed. We give below an extract descriptive of the changes accomplished in methods of transporting iron ore from Lake Superior and in the development of the blast furnace. He says:

> Following the development of the Mesaba Range came astounding improvements in the mining and transportation of ore which, together with the tremendous supply of the Lake Superior region, have had much to do with the phenomenal growth of our iron and steel industries.
>
> When we began to use Lake Superior ores the ordinary cargo of a lake boat was 500 tons. It required several days to load and unload this cargo at every point where it had to be handled—four in all. The ore cars then in use carried only ten tons. When their capacity was increased to twenty-five tons and boats were built that would carry 1,000 tons, we thought our problems were solved. Now we have vessels loading as high as 12,000 tons at the upper ports in one or two hours with one or two men on the dock, and unloading their cargo directly into fifty-ton cars in about the same time, with practically no manual labor.
>
> In the old days men with shovels loaded the ore at the mines into small cars, from which it was transferred to railroad cars. They handled it again the same way four times before it reached the furnace, for even the hopper car had not then been invented. Aside from being the most laborious task to which a human back was ever bent, this was extremely costly and slow beyond your belief. Now we handle this vast tonnage entirely by machinery. Steam shovels mine the ore; it flows by gravity into great vessels; huge unloaders transfer it to railroad cars, and car dumpers empty it under ore bridges—all the work being done by power and at a speed little short of miraculous. These things were all unknown a half century ago. They are the product of the tireless brains and the unflagging energy of the men who have built our industries to their present colossal proportions.
>
> The improvements in blast furnace construction and practice referred to in previous paragraphs had much of their inspiration from these changes in the method of handling ores. With them came changes in size, lines and equipment. These changes were most marked during the period between 1860 and 1890. In 1850 there were few furnaces in the country that could produce 150 tons of iron in a week, and the average did not reach that figure until about 1865. In 1890 a furnace at the Edgar Thomson Works built under the design of Julian Kennedy and operated under the direction of Captain Bill Jones startled the world by yielding 502 tons of iron in one day and 2,462 tons in one week. That was then believed to be the limit of production, but it is now quite usual for stacks to exceed this figure, and there are a few producing 600 tons per day.
>
> In 1860 the total output of pig iron in the United States was 821,223 tons. In 1890 it had risen to 9,202,703 tons. During 1916 there were made in America 39,434,797 tons of furnace iron of all grades.

This tells the story of the elimination of a vast amount of the hardest kind of manual labor, that of shoveling ore and of even moving it by the old wheelbarrow, by devoting profits to the construction of machinery. The additional profits thus obtained went into more machinery, but at every step there was a reduction of costs and prices, which brought iron and steel into larger use in the industries, while the wages of labor in the industry were steadily advancing. Mr. Stuyvesant Fish, formerly President of the Illinois Central Railroad Company, stated recently in a public letter that the first purchase of steel rails of which he had knowledge cost $230 per ton. Prior to the outbreak of the late war the price was $28.50 per ton.

The great car dumpers of which Mr. Butler tells will lift a car containing 110 tons of coal,

dump the load, and repeat the process at the rate of thirty cars per hour, with no manual labor beyond pressing a button.

Stock Dividends.

The Supreme Court has held that stock dividends are not taxable as income to the recipients. The decision is criticised in some quarters, but to the business man's practical view seems to be entirely sound.

The fact is that our system of income taxes discriminates against corporate organization, as a corporation pays upon its earnings and the share-holders must pay again upon receiving the same earnings into their possession. An individual proprietor doing the same business and making the same net earnings would pay but once. This is the case because the law treats the corporation as an independent entity, with an income distinct from the incomes of its share-holders. The share-holders are taxable upon any income that is transferred to them from the earnings of the corporation, but the Court says that a stock dividend transfers nothing. It only gives a claim upon any values that the corporation may distribute in the future. The stock dividend of itself neither creates nor distributes values. It is merely a new division of the certificates of ownership in the corporation. When dividends are declared the new certificates will receive their share and this income is taxable.

Stock dividends are usually resorted to when it is desired to retain a portion of the earnings in the business for its enlargement. These earnings have been taxed to the corporation, but the Court holds that they should not be taxed to the individual share-holder because they have not been transferred to him. He has, indeed, a proportionate interest in them, whether new stock is issued against that interest or not.

In short, it is only as values pass from the corporation to the share-holder that the latter is taxable upon them. In case the share-holder sells his shares and realizes a profit the latter is taxable.

Proposed Taxation in France.

We cannot but admire the spirit and resolution with which the new government in France is attacking the great network of internal and external problems which are a legacy of the war. Among the questions of domestic policy, the most important is what is known in European countries as balancing the budget, that is, making receipts equal to outlay. Monsieur Millarand, in forming his recent Cabinet, proclaimed his intention of surrounding himself with men of high technical competance, and for the first time in many years the portfolio of Finance Minister is in the hands of a practical banker. Monsieur Francois-Marsal is confronted with the task of raising $1,300,000,000 of additional taxation for the current year. It is apparent that he appreciates in a high degree the dangers of discouraging the investment of new capital by excessive and vexatious forms of taxation and that he has sought to spread the burden as widely as possible over the entire economic life of the nation.

At the present time, in addition to the income tax in France, special taxes are levied on advertisements, automobiles, stock exchange operations, real estate transactions, wines and spirits, electricity, gas, mineral waters, playing-cards, etc. Monsieur Francois-Marsal does not propose to abate or modify these taxes but to provide supplementary imposts which will be sufficient to balance the budget.

The Frenchman, even more than the Englishman or the American, is opposed to forms of taxation which oblige him to state all the sources of his income and to reveal to the Treasury agents his commercial and financial relationships. He is also hostile to all kinds of retroactive taxation. The present Finance Minister has shown a commendable tact and understanding of the French nature in taking into account in his new proposals these susceptibilities of his countrymen. Therefore, he desires to abolish the provision requiring the employer of labor to furnish information about the salary of his employes; to suppress surtaxes on war profits, etc. Apropos of retroactive taxation he said:

> Relying on existing legislation many of our companies have paid dividends to their stockholders during the past few years, and if these retroactive propositions should be incorporated in the law, their stockholders would be taxed on these dividends. Now it seems to me that to levy and collect these taxes offers insurmountable difficulties. First of all, the personnel would have to be largely increased and would necessarily be recruited from inexperienced persons who could not perform the highly technical work of classifying and verifying the countless declarations which would come in. At the same time, unless it is possible to verify absolutely the declaration which the tax-payer would make concerning all increases in his fortune, including extraordinary war profits, it would be a great mistake to attempt to collect such taxes, for there would be a great opportunity for fraud and the fisc, without gaining its point, woud simply harass the taxpayer.

Taxes on Sales and Luxuries.

In order to avoid all vexatious modes of imposition, and at the same time to create a tax whose incidence would be practically universal and would be everywhere recognized as just, Monsieur Francois-Marsal would levy a tax of 1½ per cent on all commercial transactions, whether wholesale or retail, with the exception of taxes on bread, and of certain categories of business which are already amenable to special taxes, such as the tickets and rates of public carriers, stock exchange operations, etc.

Where commercial transactions or purchases fall within the category of luxuries or of certain kinds of business where the transaction is a service rather than a sale of merchandise, the tax instead of 1½ per cent will be 10 per cent. This would include retail sales of merchandise and all commodities which have been already classified by law as articles of luxury, to include all food and drink bought or consumed in places which are considered as establishments dealing in articles of luxury. The 10 per cent tax also applies to all kinds of brokerage and commission business.

This mode of taxation is being received with favor by the business leaders of France and in fact has been approved by the Chambers of Commerce, generally throughout the country. It is believed that this form of taxation will not only raise the large sum needed to balance governmental income and expenditure but is the most just form of taxation and the most democratic which can be devised to meet existing needs. Here in the United States we are confronted with very grave problems arising from inequalities of taxation which often retard the investment of capital in productive enterprises, and we shall watch with great interest the application in France of these new forms of taxation.

France Looks to America.

While we seek to profit by the example of common sense and ingenuity which France is about to give in the matter of taxation, France is turning to us for aid of the most practical sort. Apropos of the memorandum recently prepared by the economic section of the Supreme Council, the *Temps* remarks:

> No matter how you look at the question, American collaboration is absolutely necessary. We should develop our exports, and while waiting until our economic situation permits us to do this we require every form of credit, commercial and banking, and above all we need to borrow heavily abroad. This is the only true remedy. As we have said, time and again, in the huge credit operations demanded, the aid of the United States is not only desirable but imperative, and if we fail to understand it, we shall suffer the consequences. Apparently, in some of the conversations which recently took place in London, this aspect of the question was not fully realized and we were rather surprised to note that the memorandum which was sent to the Supreme Council made no mention of America in this respect. Could it be that the Allied governments, feeling that perhaps America has become indifferent to European problems, will try to rehabilitate Europe without the help of the United States? France, particularly, would suffer from any attempt to solve her problems which would leave America out of the reckoning.
>
> Attempts by various governments to handle the exchange situation by novel expedients will only succeed in delaying the rehabilitation of Europe. The only remedy is by resort to credit.

In view of the immense losses sustained by France in men, in material of every kind, and the immense economic waste caused by the long period of war, the rapidity of her recovery is astonishing.

It should not be forgotten that the disturbance in French exchange is not merely a French problem. It is also an American problem, effecting vitally our export commerce and our whole industrial life. As Monsieur Millerand remarked recently:

> The question of raising the value of the franc appears to be imperfectly understood by the American people. We ask nothing better than increased exports. We must first, however, manufacture, and we cannot make things for foreign consumption until our factories are in order. Do our American friends realize that part of our territory is still unproductive, and that it will take some years to re-establish our industries in their former flourishing condition?

Bond Market.

The breaking up of winter found its reflection in the bond market during the month of March. As the weeks progressed bonds became firmer and the investment demand showed signs of stimulation. Throughout the month sterling exchange advanced and prices on the New York Stock Exchange steadily improved with several specialties, notably the motors, registering substantial advances. These influences have undoubtedly been reflected in the bond market.

Liquidation of foreign government loans from abroad continued with firmer prices, particularly in the Japanese issues. Anglo French 5s steadily advanced until a price of 98 1/16 was reached as compared with a low price of 93½ on February 10.

The Supreme Court decision which forces the Interstate Commerce Commission to fix railroad valuations on the basis of the present values instead of original costs stimulated the general market and following this decision the general list moved forward, with second grade rails showing substantial gains. The average of ten second grade rails listed on the Exchange registered an advance of over ½% compared with last month. Industrials, while less active than other classes during the month, were firm with advancing quotations in some of the newer issues. General Electric 6s of 1940, which were offered last month at 94½ sold up to par.

The general improvement in conditions throughout the month stimulated new offerings in substantial volume and the amounts increased until March 24, when four new issues totaling $57,200,000 were released. These included $25,000,000 Western Electric 7% Bonds, $15,000,000 Anglo American Oil 7½% Notes, $12,000,000 Canadian Pacific 6% Equipments and $5,200,000 Virginian Railway 6% Equipments, all of which were well absorbed.

The combined average of 40 active corporate issues reported by the Wall Street Journal on March 27 was 77.68, compared with 77.66 for February 26 and 85.11 for March 27, 1919. The issues used in this comparison do not reflect the constructive change which has been evidenced in the bond market during March.

Government and Municipal Issues.

The Liberty Loan market ran counter to the general market for practically the entire month in all issues except the 3½s. From their low price of 94, these bonds continued to advance until a price of 97.70 was reached toward the end of the month. The Second and Fourth 4¼s were weak, the former selling at a new low price of 89.10. Municipal bonds shared the general weakness of the Liberty issues and were fairly inactive during the first two weeks of the month. Later, however, in the absence of the usual amount of new offerings, prices advanced and dealers reported a good demand for issues yielding in the neighborhood of 4½% to 5%. The decline in municipal prices has undoubtedy limited the amount of offerings, for certain municipalities are restricted as to the amounts which they may pay for their municipal borrowings.

Following the action of the Boston Stock Exchange a number of the larger dealers in New York have agreed on the following rates of commission on Liberty transactions:

$1.25	on	$1,000	denominations	equal	to	1/8 of 1%
1.00	on	500	"	"	"	.20
.75	on	100	"	"	"	3/4 of 1%
.50	on	50	"	"	"	1%

There was a good demand for United States Government Bonds for circulation; the 2s of 1930 sold as high as 101 and the 4s of 1925 at 106¾. An issue of $1,000,000 Porto Rica Public Improvement 4½s was sold on a 4.70% basis.

An indication of municipal prices for the month is found in the following sales:

$3,000,000 State of Maine 5% Serial Bonds, to yield from 4.80% to 5¼%.
1,800,000 Bayonne, New Jersey, 5½% Bonds on a 5.10% basis.
416,000 Plainfield, New Jersey, 5% Bonds on a 4.80% basis.
528,000 Franklin County, Ohio, 5½% Bonds on a 5.10% basis.

The City of Cleveland offered $2,750,000 5% Serial Bonds but received no bids.

Canadian issues have been increasing in popularity. During the month $5,000,000 Province of Ontario 5½% Bonds, $2,850,000 Province of Manitoba 6% Bonds and $7,000,000 Province of Quebec 6% Bonds were offered and promptly sold on a 7% basis. This is the first offering of Province of Quebec bonds in the American market for some time past. An issue of $2,400,000 City of Quebec 6% Bonds was offered at par in Canada.

Railroad and Corporate Issues.

Industrial and equipment issues have found particular favor among the new offerings of the month. The largest industrials being:

$35,000,000 Texas Company Three Year 7% Notes were subscribed in one day on a 7⅛% basis.
25,000,000 Western Electric Five Year 7% Bonds were subscribed in one day on a 7⅜% basis.
15,000,000 Anglo American Oil Five Year 7½% Notes were greatly oversubscribed at par and interest.

Among the equipment issues were:

5,200,000 Virginian Railway 6% Serial Equipments on a 7% basis and
12,000,000 Canadian Pacific Railway 6% Serial Equipments to yield 6⅝% and 6¾%.

The Canadian Northern Railway also sold $12,000,000 5½% Notes maturing in 1922 and 1924 to yield about 7%.

Public Utilities as a class were steady, with a good undertone. Local traction bonds were active and strong, Interboro Rapid Transit 7% Notes advancing 8 points to 74½ while the Refunding 5% Bonds advanced 4¾ points to 57½. Dealers specializing in public utility issues reported a wider interest among buyers at present low levels, with the result that the close of the month showed advances of from 2 to 5 points in issues which had heretofore been extremely inactive. Some of the larger new offerings include:

$5,500,000 Detroit Edison 7% Bonds to yield 7%.
3,500,000 Oklahoma Gas & Electric 7% Notes to yield 7¾%.
3,000,000 Brooklyn Edison 6% Bonds to yield 7%.
2,400,000 Cincinnati Gas & Electric 6% Notes to yield 7%.
2,000,000 Dayton Power & Light 7% Notes to yield 7½%.
2,000,000 Denver Gas & Electric 7% Notes to yield 8%.
2,500,000 Georgia Railway & Power 7% Notes to yield 7.45%.

Dealers who have handled these issues reported excellent distribution.

Discount Rates Approved by Federal Reserve Board up to March 29, 1920.

Federal Reserve Banks	Discounted bills maturing within 90 days (including memberbanks' 15-day collateral notes) secured by		Bankers acceptances maturing within 3 months	Trade acceptances maturing within 90 days	Discounted bills secured otherwise than by Government war obligations, also unsecured, maturing within	
	Treasury certificates of indebtedness	Liberty bonds and Victory notes			90 days (including member banks' 15-day collateral notes)	91 to 180 days (agricultural and live-stock paper)
Boston	5	5½	5	6	6	6
New York	5	5½	5	6	6	6
Philadelphia	5	5½	5	6	6	6
Cleveland	4¾	5½	5	6	6	6
Richmond	5	5½	5	6	6	6
Atlanta	5	5½	5	6	6	6
Chicago	5	5½	5½	6	6	6
St. Louis	5	5½	5	6	6	6
Minneapolis	4¾	5½	5	5½	6	6
Kansas City	5	5½	5	6	6	6
Dallas	4½	5	5	5	6	6
San Francisco	5	5½	5	6	6	6

Note—Rate on paper secured by War Finance Corporation bonds 1 per cent. higher than the rate on commercial paper.

1920

Economic Conditions Governmental Finance United States Securities

NEW YORK, MAY, 1920.

General Business Conditions.

BUSINESS has had hard conditions to contend with during the last month, the volunteer railroad strike, unauthorized by the regular brotherhoods, being the most serious factor. The congestion on the roads was very bad before, and this was the finishing touch of demoralization. Coal supplies were short, many industries were forced to close down and in the aggregate vast losses were inflicted upon the public, the larger part of which falls upon the people who work for wages. Every such interruption of industry is most harmful to those whose earnings afford only a small margin above the actual necessaries of life, and, while always to be regretted, probably is a necessary part of the public education in the economics of practical affairs. It is evident that a gross offense against the public is committed when a body of men employed upon such a vital industry as the railroads suddenly quits work by agreement. It is not a conflict between labor and capital, but a violation of trust in which the public is the injured party.

Reaction in Japan.

Much has been made of a critical situation which has developed in Japan, as possibly indicating the beginning of an industrial reaction which might extend from country to country, bringing on a general fall of prices and perhaps financial disaster, as in the crises which in the past have followed upon war and periods of inflation.

It has been known for some time that credit was over-extended in Japan, and that speculation in stocks and new industrial enterprises was a considerable factor in the situation. The leading bankers of Japan commented freely upon the situation at the annual bank meetings about the beginning of the new year, and have been trying to control it. There is no evidence yet that the situation has gotten seriously out of hand. It is said that the fall of prices on the stock exchange has been very great, causing a temporary closing of exchanges, which have since reopened, but only two banks have been reported as closed, one of which would receive assistance to reopen. This is not much like the panic of 1873 in the United States or even that of 1893.

United States Not Involved.

The situation in the United States is not so related to the situation in Japan as to be directly affected to an important degree. The price of raw silk has fallen about one-third, but this has been going on over several months, and although the stocks of silk in this country are considerable they are said not to amount to more than three months' consumption. No important disturbance in the silk trade is reported here.

So far as the stock market conditions are concerned, the situation here is not similar to that said to have existed in Japan. Although there have been new flotations and speculative advances in some stocks in months past, a substantial reaction has occurred in most of them, and the general level of listed stocks is very low as compared with any time in the past. The whole railroad list is in marked contrast with what it was in 1907, and generally speaking the listed industrials are also low when consideration is given to the new values which have been put into the properties in recent years. The amount of loans upon listed stocks, taking account of the total volume of stocks now listed, the property values behind them or the proportion of such loans to other bank loans, is low as compared with 1907 or other periods when stock speculation has reached a climax.

Trade Conditions Generally Sound.

There is no evidence that stocks of goods are excessive in this country. Reports commonly are that dealers have difficulty in getting goods fast enough to take care of their trade. It is true that the pressure for credit indicates that inventories are high, but this seems to refer to raw materials rather than to goods ready for the consumer's market, and this condition results largely from the delays and uncertainties of transportation. Manufac-

turers find it necessary to carry larger stocks to be sure of having enough to keep their establishments running in all departments. Large stocks at the present level of prices are undoubtedly an element of danger, but the manufacturing industries of this country are generally in a stronger position as regards the relation of assets to liabilities than they have been in the past.

Conditions the world over are not such as to suggest a state of over-production in any of the essential industries in the near future. The conspicuous feature of the situation is the great backed-up demand for construction work, and there is no record of panic and industrial depression in the face of such a prospect. The needs for houses, for railroad equipment and for construction work of many kinds in our own country, not to speak of the needs of other countries, are imperative.

Problems and Perils.

There are problems and perils more serious even than those involved in a business reaction. The state of the public mind toward the present industrial organization, the prevailing unrest in industry, the shortage of capital for making needed improvements in industry and transportation, the detachment of wages and prices from the gold standard and the growing confusion resulting therefrom, are all matters to give serious concern. The modern industrial organization is a very complicated one. It must be so in order to supply the wants of the present population at the present standard of living. The fact is that the necessary organization is so complicated that few people comprehend it, or understand the economic laws which govern it. Hence there is endless interference with its normal workings, to the injury of all. An application of the fundamental principles upon which society has made all its progress in the past, practicing industry and thrift, would rapidly improve conditions. There is nothing in the financial or industrial situation which would not be quickly remedied by increased production, but society will not make a success of trying to divide more than it produces or gain anything by breaking down the industrial organization. The latter is subject to change, but nobody will be better off for changes which reduce production.

Wage and Price Advances.

The cost-of-living situation is not encouraging. The backward spring has delayed the coming of fresh food supplies and exhausted storage supplies, causing advances which with normal conditions might not have occurred. The tie-up of transportation has had a similar influence, and the tendency of prices has stimulated the demands for wage increases. Moreover, the general unsettlement of wages and prices has reached the point where it is no longer related in the public mind to the war, or considered as something temporary. The war was ended a year and a half ago; there was some expectation then of a fall of prices, but it has not been realized. All of the old standards and relationships are lost, and a habit of getting what you can has been developed. Wages in some lines have not kept pace with the cost of living, but in other lines have more than done so, and workers in the latter industries are as eager for more as those in the former. Those who received the early advances lose the value of them as other advances are made, and now seek to recover the gains they have lost. So wages are jacked up first in one quarter and then in another, each successful demand suggesting others.

The bituminous coal miners have had a raise and anthracite miners are after one. The railroad employes are asking for 60 per cent advance, and there are rumors of more demands in the textile industries. In England the employes in textiles at Lancashire are out for 60 per cent increase. The rise of wages increases the purchasing power of the recipients and this increases the demand for goods, driving up prices so that apparently the situation is as far from being stabilized as ever. Groups which have suffered unfairly heretofore like school-teachers and other public employes, are having their claims recognized, at least to some extent, which will increase taxation and have effects yet to be confronted. Each new development imposes further burdens somewhere and stimulates further demands. There is little recognition that these troubles have their root in the loss of capital caused by the war, resulting in low production as compared with the wants of the population, and that a remedy must be applied here.

The Commissioner of Labor Statistics, Washington, D. C., in a recent statement goes to the heart of the situation when he says:

> The profiteer is being blamed on all hands for the increase in prices. Undoubtedly, profiteering of a most reprehensible sort has existed and does exist to-day, but the profiteer is a result of ever-increasing prices rather than a cause thereof. His influence in boosting prices is negligible. If all the profiteers in the world could be apprehended and thrown into jail or lined up and shot it would have no appreciable influence upon prices.
>
> It has been suggested that the abnormally high prices are psychological in origin and that prices will fall just as soon as the people can be made to think falling prices. Of course, psychology is involved in every price, but the larger quantities of currency and the smaller amounts of commodities are physical facts that no psychic legerdemain can overcome.

Trade and Industry.

The steel industry had the biggest month in its history in March, the enlarged capacity upon which construction was begun during the war being now largely completed. It is calculated that steel-making capacity is now above

50,000,000 tons per annum. The railroad strike has cost the industry the equivalent of about one week's full production. The mills are sold up for the greater part of the year. The United States Steel Corporation holds to its policy of maintaining the figures of a year ago, but the independents have followed the market more or less closely, as a rule the smaller producers avoiding advance commitments and getting the benefit of higher prices for prompt deliveries.

The textile industries are under continued pressure for goods, prices showing little change except in silk goods, for which the raw material is lower. The silk mills are sold well ahead and are declining to accept cancellations. Sales of the domestic crop of wool are beginning to be reported at prices 10 to 15 cents per pound above those of last year. Low grades of wool, of which there are large stocks, remain neglected, at comparatively low prices. Manufacturers are perplexed to know how to utilize them, as efforts to work them into saleable goods have so far resulted in losses. The public wants high grade clothing.

Increased Employment.

Reports collected by the Bureau of Labor Statistics at Washington make a remarkable showing of increased employment in many industries over a year ago. All industries included in the inquiry report an increased number of employes in March, 1920, over March, 1919, and following are the figures for some of the larger ones:

Industry	Estab. reporting.	Number on pay roll March, 1919.	March, 1920.	Changes.
Automobile	38	91,668	126,434	+37.9
Boot and shoe	70	58,392	63,710	+ 9.1
Car building	51	55,501	48.535	—12.6
Cigar	56	18.233	16.746	— 8.2
Men's clothing	49	23,666	36,770	+55.4
Cotton finishing	16	8,758	12,808	+46.2
Cotton mfg	52	45,973	53,318	+16.0
Hosiery and und.	65	28,495	34,302	+20.4
Iron and steel	111	160,467	170,963	+ 6.5
Leather	33	15,793	17,486	+10.7
Paper	53	23,976	26.625	+11.0
Silk	49	15,188	16,750	+10.3
Woolen	50	24,986	48,361	+93.6

There was some hesitation in industry in the early months of last year, but in the main these increases have come from the demobilization of the army and workers attracted from other industries, notably agriculture.

General trade is good in all parts of the country, although some timidity has been evident in wholesale circles, prompted by the reports of trade reaction and panic in Japan and by heavy selling on the New York stock exchange, which also had its impulse in the news from Japan.

The Scarcity of Capital.

The credit situation all over the world has shown the signs of increasing pressure during the past month. The Bank of England discount rate was raised from 6 to 7 per cent, the Bank of France rate from 5 to 6, the Bank of Sweden rate from 6 to 7, the Bank of Finland rate from 7 to 8, the Bombay rate from 7 to 9. The Bank of Japan rate has been at 8 per cent since last November.

These advances have been made for the purpose of holding the demands for credit in check, and of course the demands for credit are due to the scarcity of real capital. There is a demand for goods of every kind in excess of the supply, and there is great need of increased capacity in production. The world has not gotten back to normal production and it is behind with development work and construction. Moreover, it is not even using the existing productive equipment to the former extent, for the hours of labor have been reduced. With production thus limited, and with the people trying to buy more goods than there are in existence, and seeking in desperation to make credit take the place of capital in production, there is great pressure on the banks for accommodations.

In short, the same process of inflation which was carried on during the war is still going on, and the rise of bank rates represents an effort to check it.

The Pennsylvania Railroad Company, a corporation of the highest credit, if any railroad corporation can be said to be entitled in these days to that classification, has borrowed $50,000,000 during the past month for ten years at 7 per cent interest. That, and the declining market values of Government bonds, tell the story of the scarcity of capital.

Foreign Trade and Exchanges.

Once again the monthly figures for foreign trade give a surprise, the exports of this country in March, at $820,000,000, being the second largest on record, while the imports, at $484,000,000 were the largest of any month in the history of the country. The increase of imports is not surprising, as they have been growing steadily and are but $10,000,000 above those of January, but the rise of exports was unexpected. For one reason, exports of farm products usually taper off in the spring months, and, again, it had been thought that the apex of exports was passed owing to exchange conditions. The persistence of the export movement under the circumstances confounds all expert opinion.

The increase of exports makes it more difficult to account through our direct relations with London, for the rise of sterling exchange which occurred in March and which was well

sustained throughout April. Undoubtedly the announcement that the Anglo-French loan would be paid had a good sentimental effect, but it is not probable that this alone caused the rise of exchange. Nothing can sustain exchanges rates but exchange purchases, and it is not likely that speculative purchases have caused the rise.

Two explanations are made which are reasonable. In the first place it is said that the offerings of sterling bills during the last two months have been comparatively light, the exports of these months having been financed earlier. In the second place it is said that the balances of trade against us in India, the Strait Settlements and Dutch East Indies are being settled in sterling. In other words we are drawing on our credits in London to pay our debts in Asia. England's shipments to Asia, particularly of cotton goods, have been large of late, and appear to have placed her in position to use credits there in settlements with us. Silver shipments to Asia have been light, and the price has declined in consequence, from about $1.30 to $1.15 at the low point, with a small volume of transactions.

The table of monthly quotations is as follows:

	Unit Value	Rate in cents Mar. 29	New rate Apr. 27	Change from Par	Depreciation in %
Canada	1.00	.9230	.8975	.1025	10.25
Germany	.2382	.0135	.0175	.2207	92.66
Italy	.1930	.0503	.0437	.1493	77.36
Belgium	.1930	.0730	.0627	.1303	67.51
France	.1930	.0695	.0588	.1342	69.53
England	4.8665	3.9450	3.82	1.0465	21.50
Switzerland	.1930	.1750	.1761	.0169	8.76
Holland	.4020	.3725	.3625	.0395	9.83
Denmark	.2680	.1875	.1725	.0955	35.63
Norway	.2680	.1925	.1925	.0755	28.17
Sweden	.2680	.2185	.2100	.0580	21.64
Spain	.1930	.1775	.1695	.0235	12.18
Argentina	.9648	.9830	.9762	*.0114	*1.18
Japan	.4985	.4750	.4850	.0135	2.71

*Premium.

Japanese Exchange.

The figures for the exports of raw silk from Japan to the United States threw much light on exchange conditions for the last nine months. From July 1, 1919, to February 1, 1920, these shipments of silk aggregated 180,000 bales, as compared with between 4,000 and 5,000 bales to all the rest of the world. The total crop is estimated to have been 240,000 to 250,000 bales, so that on February 1 there remained not more than 65,000 bales at the outside. It was these enormous shipments which put the trade balance in favor of Japan and enabled that country to draw an important amount of gold from the United States last year, but with the falling off of these recently the exchanges have become more favorable to the United States.

The Argentine Exchange Rate.

Argentina has continued to take gold in large amounts during the last month, but the rate of exchange has fallen, so that it is now barely above the gold point. The season of the year is approaching when rates are usually more favorable to the United States, and there is a probability that shipments of the metal may cease for a time.

The Argentine notes, aggregating about $50,000,000, which are held here and which fall due this month, have been provided for, the rather dramatic announcement being made that Great Britain will pay them. There was hesitation in financial circles about making a new loan to liquidate these notes, on account of the depressed state of the securities market, and in view of the loss of the gold to Argentina. The British government relieved the situation by agreeing to advance the gold for the payment, making a loan to the Argentine running to January 1, 1921. Great Britain, France and Italy have negotiations pending for a new joint loan of $200,000,000 from Argentina, to be all expended for Argentine products, and this $50,000,000 gold payment by Great Britain may be a part of the quid pro quo.

The payment of $50,000,000 for Argentina will make it necessary for Great Britain to provide this sum in this market in addition to its share of the Anglo-French loan, and probably means that so much more gold will be sent.

First Edge Corporation.

The first corporation to be organized under the Edge amendment to the Federal Reserve Act has been granted a charter and will be ready for business in a short time. The name is the First Federal Foreign Banking Association, and it will have a capital of $2,100,000 composed of 21,000 shares of a par value of $100 per share, of which 1,000 will be founders' or managers' shares. The stock is all subscribed at $105 per share and none will be offered on the market.

The banking corporations which are interested, as authorized by the law, are:

Aldred & Co., Bank of the Manhattan Company, the New York Trust Company, the Liberty National Bank and Tucker, Anthony & Co., all of New York; the Citizens' Commercial Trust Company of Buffalo, the American Trust Company of Boston, the Merchants' National Bank of Worcester, the Chicopee National Bank of Springfield, Mass.; the Commercial Trust Company of Philadelphia and the First Bridgeport National Bank of Bridgeport, Conn.

W. S. Kies of Aldred & Co., ex-Vice-President of The National City Bank and the American International Corporation, will be Chairman of the board, and the bank's Advisory Management Committee will be J. H. Perkins, J. E. Gardin, J. H. Maxwell and F. H. Payne. In addition to the foregoing, the Directors of the bank will include J. E. Aldred, Stephen Baker, Mortimer N. Buckner, A. B. Chapin, N. P. Clement, F. A. Drury, H. J. Fuller, Alba B. Johnson, R. E. Jones, W. B. Lashar, George A. MacDonald, J. H. Mason, E. S. Wolfe and W. L. Wright.

While the immediate object of the Edge amendment to the reserve act is to aid in financing the sale of American products which are just now sorely needed for the rehabilitation of Europe, the facilities which it provides will be serviceable to our foreign trade at all times. An amendment

to the Reserve act passed in 1916 authorized national banks having a capital and surplus of $1,000,000 or more to invest a limited amount in the stock of corporations organized to carry on a banking business in foreign countries. Corporations of this character have been organized under state laws, but the Edge amendment provides for the organization of a class of such banks under the Federal Reserve act and places them under the supervision of the Federal Reserve Board.

Investment Banks.

These Edge amendment banks are not primarily banks of deposit, being allowed to accept deposits in this country only as incidental to their foreign business. Instead of obtaining their lending power from depositors they are to get it from investors, by the sale of their obligations either in the form of long-term debentures, acceptances or other paper issued by them. The stock of the First Federal Foreign Banking Corporation has been placed with banks and manufacturing companies in certain localities where the manufacturers are interested in foreign trade and where also there is a considerable amount of capital available for investment. The purpose is to enlist capital from the public for the support of the foreign trade which the manufacturers will develop.

The obligations of foreign purchasers will be the basis of the investment paper issued by the new banking corporation, but the capital of this corporation, which will be supplied in part by the manufacturers, will furnish an additional margin of safety.

The regulations for the organization of Edge amendment corporations have been formulated by the Federal Reserve Board, pursuant to the general terms of the law, and are intended, to use the language of the Board, to insure the conservative and prudent management of corporations chartered under its provisions, and to safeguard as far as possible the interests of the public with whom they may do business.

The first bank organized under the new provisions illustrates the co-operative principle which the act was intended to develop. Each locality may organize such a bank for the promotion of its industries in the foreign field, appealing to local investors for support. The latter, instead of buying foreign securities direct, will have the opportunity of buying the obligations of a home corporation which has full knowledge of the foreign business and which pledges its own capital to support the foreign obligations.

The Money Market.

During the month of April, money became even tighter than it had been in March, although rates remained practically unchanged. Time loans commanded around 8 and even 8½ per cent for all maturities from 60 days to 6 months. Commercial paper, according to the quality of names, ranged from 6½ to 7 per cent, and with the market fairly steady, the demand was rather quiet. Banks' and bankers' acceptances, at a rate of close to 6 per cent, showed a better demand, which is attributed in part to considerable buying in this market by the Bank of England, presumably as a temporary investment for the proceeds of some of the gold now being sent here. Call loans fluctuated widely, often varying by several per cent daily, and ranging over brief periods, from 6 to 15 per cent.

Federal Reserve Figures.

Little change occurred in the condition of the Federal reserve banks during the month. The total earning assets on April 23 were $3,176,000,000, against $3,196,000,000 on April 2, $3,279,000,000 on February 27, and $2,354,000,000 one year ago. Total gold reserves were $1,949,000,000, against $1,966,000,000 at the end of last February and $2,169,000,000 a year ago.

The reserve banks at Chicago, Minneapolis, St. Louis and Kansas City, Richmond and Philadelphia are re-discounting with the reserve banks of Dallas, Cleveland, New York and Boston. The situation everywhere is adversely affected by the amount of commodities tied up in transit by the crippled condition of the railroads or held on the farms and in country elevators. The middle west is complaining strenuously of inability to move the crop to market.

Banking Conditions in Middle West.

A banker writing from a country town in Illinois, under date April 22, discusses local conditions as quoted below. We give his comments as typical of the farming districts of the middle west:

> We find that almost all of the banks is having an unusual demand for money. Although deposits are more than at this time last year, the total loans are more in proportion.
>
> This has been caused partly by the very active movement in farm land and in consequence, a large amount of money loaned on farms in connection with these sales.
>
> Quite a large amount of these loans are still in the hands of the original lenders, as they have difficulty in selling them to permanent investors. This is due to the fact that quite a large amount of money has been invested in Liberty Loan bonds and other bonds, which owing to the rate of interest and exemption from local taxes, will net a better return to the investor.
>
> At present, the railroad situation has checked the movement of live stock and other farm products. When this is righted and the railroads are able to receive shipments freely, there will be quite a movement of live stock. There is not a very large surplus of grain in the farmers' hands, and owing to recent rains, it will be difficult to deliver the grain and soon farmers will be more busy with farm work.
>
> Retail merchants as a rule are having a good business and collections are fairly good.
>
> While there are not quite as many farmers feeding cattle and hogs, some of our customers have a larger number than usual.
>
> We feel that the situation will improve gradually but do not look for much change in the next thirty days.

Taxation of War Profits and Capital.

A plan is said to be developing in Congress to levy a tax of 80 per cent upon business profits realized during 1917, 1918, 1919 and 1920, to provide a fund for the payment of the proposed bonus to the soldiers. The plan will catch the approval of people who imagine that these profits are on hand in cash, but a moment's reflection will convince anyone that the profits of these past years have either been spent and lost or invested in such manner that they cannot be withdrawn and four-fifths turned over to the Government without serious disturbance of all industry. There has been but little unusual distribution of profits by corporations on account of war profits, and when such distribution has been made, the corporations are not in position to pay such a tax. As a rule such profits now exist in the form of new buildings and equipment, employed in production. When the owners had paid the taxes required of them in each of the years named they had a right to believe that what remained belonged to them and to make their plans accordingly. In many instances they not only invested the profits in construction work and equipment, but went into debt in the development of their plans, and obtained credit on the strength of the assets they were able to show. This proposal would disturb credit throughout the country and cause an unsettlement of business that would be far-reaching in its effects. If there is any one thing upon which there is general agreement at this time it is that the country needs increased production, and any public policy which disturbs industry and credit, and takes capital from productive use, is certain to work a vast amount of injury. The country can lose far more than the value of the bonus payments by the method in which the money is raised.

The way to raise revenue for the Government with the least disturbance to industry is by levies upon incomes as they are received and before they are converted into fixed investments. The Government is already taking a very large percentage of incomes, and thus curtailing the amount of new capital which would be normally available for the enlargement of industry. The evil effects of this are to be seen in the state of the railroads, the high interest rates which must be paid for new capital and the rising prices for industrial products. But bad as these effects are they can be made much worse, by compelling everybody who has invested any profits during the past four years to sell the investments in order to convey four-fifths of their original cost to the Government.

Tax on Capital.

A tax on capital would be similar in its effects to a tax on war profits, but it would be spread over more capital. It is not easy to tell which would work the most mischief. Secretary Houston has shown where he stands on all such propositions in a very clear and decisive manner. The case hardly could be stated more convincingly than he has stated it in a recent letter making reply to a correspondent who had asked his opinion on the subject.

The Secretary also replies to certain statements by Mr. Plumb, author of the Plumb railway plan, whose ventures in statistics seem to always elicit the same kind of comment. Secretary Houston's letter, in part, follows:

> The statements made by Mr. Plumb concerning the increase in the volume of our currency are incorrect. I hand you herewith a copy of a letter dated August 8, 1919, from Governor Harding of the Federal Reserve Board to Senator McLean of the Committee on Banking and Currency of the United States Senate discussing the expansion of the currency and giving accurate figures.
>
> As to Government receipts and expenditures, Mr. Plumb's statements are incorrect and grossly misleading.
>
> On the basis of the Treasury daily statements, the Government's total expenditures from April 16, 1917, to March 31, 1920, excluding principal of the public debt, were $37,455,645,853.66. The total receipts for the same period, excluding principal of the public debt, were $14,198,247,793.34.
>
> The excess of such disbursements over such receipts for the war period was $23,257,398,060.32, which is the amount of the net increase in the public debt for the war period, after reducing the amount of the net increase of the balance in the general fund, and is represented by Liberty bonds, Victory notes, Treasury certificates and War Savings securities outstanding.
>
> I am not in favor of a capital tax. In this connection I am enclosing a copy of an extract from Secretary Glass's annual report for 1919 on the subject of taxation. A capital tax would in my judgment be entirely impracticable and so disturbing to industry and commerce as to upset business and bring production to a standstill.
>
> An inevitable effect of a capital tax, moreover, would be to discourage saving and encourage extravagance and wasteful spending, not only for the time being but to a greater or less extent for generations to come. By its very nature the tax would be levied regardless of ability to liquidate and pay and would fall heaviest on those who have accumulated savings by thrift and enterprise and leave untouched those who have lived up to the limit of their incomes, thus putting a premium on waste and extravagance and a penalty on brains and thrift.
>
> There is nothing in the financial position of this government which would warrant the adoption of so radical and dangerous a measure.

Agricultural Conditions.

The crops are going to be a very important factor in the situation this year, and in this country the prospects at this time are none too good. The spring has been cold and backward, making a late start for the small grains and cotton. The government report on winter wheat was quite unfavorable, indicating a crop of 484,000,000 bushels, or more than 200,000,000 bushels under last year's. Reports from the spring wheat sections of a probable reduction of acreage has caused the Department of Agriculture to issue a statement urg-

ing farmers to revise their plans and sow more liberally, on account of the low condition of the fall-sown crop, and the prospect that the foreign demand will continue heavy. European crops are reported as promising well, but it must be remembered that before the war Russia supplied a large part of the wheat imports of western Europe and there is little prospect of a renewal of shipments from Russia.

The Australian crop is poor, but the Argentine crop, now being marketed, is a good one, and it has been moving to Europe very rapidly since January 1st. The following figures reported by our Buenos Aires Branch show the exports of grain from Buenos Aires from January 1 to February 26, in last three years:

		TONS	
PRODUCTS	1918	1919	1920
Wheat	135,358	141,677	1,005,410
Corn	97,820	210,448	640,229
Linseed	83,202	13,224	147,446
Oats	3	47,851	76,619
Totals..	316,383	413,200	1,869,704

Prices have risen in Argentina even more than in the United States, so that in the latter part of April it was said that buyers were turning to the latter as the cheaper market.

Grain and Produce Higher.

The grain and produce markets have all been in an abnormal state during the past month, owing to the strike of railway employes, and transportation has been an important factor in the situation ever since last year's crop was ready for market. At no time have the railroads been able to furnish cars enough to even take good care of the consumptive demand, to say nothing of accumulating the accustomed stocks at the central markets. Grain prices have ruled higher for cash delivery than for the futures, which is the reverse of the normal condition. The effect has been to finally cause such a rise that the Government is making an investigation of the corn market to see if the facts sustain the charge that a corner exists. Inability to move supplies from the country has the same effects as a corner, and promotes cornering operations.

All of the grains have sold during April at new high records on the crop, corn being up about 30 cents a bushel, wheat on good grades about the same and oats 15 to 20. Number 1 northern wheat in Chicago has sold as high as $3.23. The country elevators are full and the farmers who have large stocks which they cannot dispose of, are only irritated by reading of the high prices which they are unable to obtain. Morever, the high quotations for corn make them still more dissatisfied with the prices which are ruling for fat cattle and hogs, as all feeding operations show heavy losses under the comparison. Practically all cattle marketed in the past winter have made losses for the owners, basing the calculation on the value of corn consumed, and even the hog crop has been so unsatisfactory that according to reports production will be considerably reduced this year.

Butter and Eggs.

The butter and egg markets closed the winter season with a decided turn upward which was also due in part to the backward season and in part to the railroad strike. Storage supplies of both were entirely cleared out, and the spring production has not come fast enough to take care of consumption, which is on the greatest scale ever known. Butter has been selling in April as high as at any time since the great rise occurred, and expert opinion is that only the Danish arrivals which have aggregated millions of pounds, saved the market from going very much higher. One steamer brought nearly 2,000,000 pounds into New York at a most opportune time. Butter is being imported now not only from Denmark but from Holland and Argentina. The story of eggs is about the same as that of butter. The season of full supply is a month late, and eggs are now going into storage for next winter at 3 to 5 cents above the basis of operations last year.

Cotton Crop Prospects.

The planting season is a month or more late, which with a shortage of labor is unpromising for acreage. The weather in the eastern part of the territory has been cold and rainy while Texas is suffering from draught. The annual conference of cotton producers, held at Montgomery last month, decided that owing to the short supply of labor it was unnecessary to pass any resolution for limiting acreage, but declared in favor of holding cotton for 60 cents per pound. Bankers are urging their customers to grow enough feed for farm animals and a supply of food for the farmer and his family, which in view of transportation uncertainties and charges and higher traders' margins, is certainly good advice.

Labor Leaving the Farms.

The most serious feature of the agricultural situation is the continued loss of labor from the farms. The Department of Agriculture on the basis of reports from all sections of the country estimates a reduction of 12 per cent. in hired labor from a year ago and that the amount of hired labor is only 72 per cent. of what it was before the war. The rise of wages and the shorter hours of labor in the town industries are accountable for this constant drain.

It does not require an argument to convince any thoughtful person that this drift away from agriculture to the town industries, is the result of artificial conditions and fundamentally wrong. Men are not worth so much more to society in the town industries than upon the farms as to justify this situation in the present state of world affairs.

If the crops are short and prices go higher, presumably the wage-earners of the cities will want

further increases of pay to compensate them, and this will raise industrial costs still higher. Perhaps by that time, also, the demands for a 44 or 40 hour week will be due, and another installment of farmers will move to town, where the living conditions are so attractive. Then, with still higher prices for farm products, wages in the towns will have to be lifted again, until the last farmer has been convinced of the folly of resisting the movement, and wages for everybody in town are finally high enough to enable them to live without any crops!

The Farm Demonstrator of the Department of Agriculture located at the State Agricultural College of New Hampshire says that this year practically completes the elimination of hired labor for the farms of New Hampshire. The next effect, he says,

> "Will be the elimination of small farmers and of men working with restricted capital. Such men simply sell off their stock and hire out by the day at the nearest mill or job that pays wages. After making fairly careful estimates in six leading counties, it is my opinion that this year will see the elimination of at least 1,000 farmers in New Hampshire, so far as their being producers of surplus food products."

The Sugar Supply.

Sugar is a sore spot in the cost-of-living situation. Our beet sugar crop has been a disappointment, the official returns showing that 22 per cent. of the area sown last spring was not harvested. The Cuban crop has been cut seriously by drought, and Europe is bidding against us in the Cuban market, with the result that raw sugar has advanced to more than double the prices of a year ago, and there is no relief in sight. There is the usual denunciation of profiteering, but what is occurring is natural and inevitable. The world's supply of sugar is 2,000,000 tons short of that of pre-war times, owing to the falling off of beet sugar production in Europe. The sugar producers are not unlike other producers in being willing to take the highest offers, but the movement of sugar from Cuba thus far on the present crop is considerably larger than that of last year to the corresponding date.

One novel development in the trade is reported, which is that the planters are having their raws refined for them on toll charges, and placing the refined product on the market on their own account. This policy is said to be contributing to higher prices, but after all the basic fact is that the demand for sugar exceeds the supply. The logical method of distribution is by letting the price go high enough to bring the demand down into balance with the supply, and this method has the merit of providing an ultimate remedy for the shortage. The planters of Cuba are investing their big profits in the enlargement of their plantations, and the European producers are making strenuous efforts to get back into their old stride. All around the Caribbean, and in every country where sugar is a possible crop there is activity looking toward greater production. The high prices are not only supplying the inducement to greater production, but supplying the capital required. Under no other conditions than those which exist could increased production be so rapidly accomplished.

The situation might be much relieved by reducing the consumption in candy and drinks, which has greatly increased in the last few years.

The Meat Packing Industry.

The earnings of the big packing companies as shown by their annual reports are of especial interest among business returns because they show the facts as to one of the great industries of the country, and one which is subject probably to more misrepresentation than any other.

The earnings of all the companies were smaller last year than for any year since the beginning of the war, owing to the fact that business was done during the latter part of the year upon a falling market. During the war, when business was done on a rising market, profits naturally were increased by that fact, and profits inevitably suffer when the situation is reversed. Every business man experiences the same tendencies.

The profit and loss account of Swift & Company, which is the leader in volume of sales, for the year ended November 1, 1919, is as follows:

Swift & Company, Profit and Loss Account.

Earnings from the Manufacture and Sale of Meat and By-Products from Cattle, Calves, Sheep and Hogs	$15,586,166.20	
Earnings from all Other Food Products including Poultry, Butter, Eggs, Cotton Oil, Lard Substitutes	$ 3,515,187.41	
Earnings from all Other Operations and Investments	$ 8,141,377.27	
Total Earnings from All Sources		$27,242,730.88
Interest Paid on Borrowed Money		$12,572,549.54
Net Earnings before Federal and Foreign Taxes		$14,670,181.34
Reserve for Federal and Foreign Taxes		$ 800,000.00
Earnings for Year		$13,870,181.34
Equivalent to 1 15/100 Cents on Each Dollar of Sales. ¼ Cent per Pound on All Products Shipped. 6 3/5 on Average Capital Stock and Surplus.		
Dividends Paid at 8% per Annum		$10,063,460.00
(Average Capital Stock for the Year Being $125,793,250.00)		
Surplus Profits for Year		$ 3,806,721.34
Surplus Brought Forward from Previous Year		$84,575,178.99
Surplus at November 1, 1919		$88,381,900.33

Sales Over $1,200,000,000
Shipments Over 5,500,000,000 Pounds

The profits of Swift & Company for each of the last five years, upon the volume of sales, net worth and total assets are shown by the following table:

Swift & Company, Average Profit Over Five Years.

Year ended Sept. 30.	Volume of business in excess of	Per dollar of sales (all products)	On net worth (capital and surplus)	On Total Assets
1915........	$500,000,000	2.82%	12.56%	10.27 %
1916........	$575,000,000	3.56	16.93	11.59
1917........	$875,000,000	3.96	25.61	17.13
1918........	$1,200,000,000	1.76	13.22	10.41
1919........	$1,200,000,000	1.15	6.53	6.37

The profits of the five largest packing companies for the year preceding the war averaged 1.8 per cent on sales and 7.4 per cent on the net amount of owned capital invested in the business.

Borrowed Capital.

The packing companies all use large amounts of borrowed capital and normally these borrowings are an important factor in the profits. They are able to use their credit to an extent which in many lines of business would be imprudent and impracticable, because the character of their product and the rapidity with which it is turned over gives assurance of their ability to reduce their indebtedness quickly if at any time it should be necessary to do so. By curtailing their purchases of live stock they would be able to liquidate their position rapidly.

Swift & Company on November 1st had invested capital, including surplus, of $238,381,900, and borrowed capital aggregating $200,482,206, of which $30,258,500 was represented by mortgage bonds, $25,000,000 by 6 per cent gold notes, running a term of years and $145,224,206 was bank paper. On the other hand their accounts receivable were $149,796,212 and their inventories $191,890,848, besides their plants, and varied investments.

Last year interest rates were so high and profits so low that they made nothing on their borrowed capital, the earnings on total assets being less than the earnings on net worth, but the gains in other years as the result of this free use of borrowed capital are noteworthy.

The propriety of an operator's using his credit to enlarge his business and thereby increase the profits accruing to his own invested capital would seem to be unquestionable. He increases production, rendering further service to the public in doing so, and with the greatest possible economy. He pledges and subrogates his own interest in the business to secure his creditor, taking the risks incidental to the debtor position, and he cannot be expected to do this without compensation. The Federal Trade Commission, however, has made these profits upon borrowed capital one of the points of criticism upon the packing industry.

Attacks on the Meat Industry.

The large packers, yielding to incessant attack and as a concession to the prevalent objection to their extending their operations into other lines, have entered into an agreement with the Attorney-General which has been made the basis of a court decree, that they will confine their operations in the future to live stock and the by-products therefrom and to dairy products.

It is sixteen years since James R. Garfield, Commissioner of the Bureau of Corporations, made the first investigation of the meat industry. His report showed profits so small that it was commonly discredited by the class who prefer to believe what they like rather than what is true. Year after year ever since, the industry has gone on with the same extraordinary efficiency, saving far more than its profits from what was formerly waste, and rendering a highly organized service of great value to the public, but always under a fire of attack. The profits have continued at about the same rate that Garfield reported, fluctuating slightly, but affording no support for the representations common in circulation. Offences such as collusion, gross manipulation of markets, extortion, etc., might be expected to show unusual results in the earnings statements, but they do not appear. A profit of one-quarter of a cent per pound in wholesale prices of 15 to 20 cents per pound cannot be said to be exorbitant compensation for the use of the capital and organization of Swift & Company, with all its highly developed activities. It is earned by the scientific utilization of every part of an animal in making scores of commercial products, from brushes, buttons and violin strings to pharmaceutical supplies, not to mention its regular food products.

The Small Packers.

There are more than 300 meat-packing companies in the United States which are under the supervision of government inspectors, which means that they are doing an inter-state business. Many of them are very important concerns, measuring by comparison with units in other lines of business. Some of them are active in the export trade, and others are well established in the large markets of this country. Most of them have a comparatively local territory, but they have demonstrated their ability to maintain themselves and do in the aggregate a large business, but the established position of the old companies in the chief markets limits their growth. If, however, the old companies should attempt to materially widen their margin of profit, the business of these numerous competitors would expand rapidly, and the big concerns would quickly lose their pre-eminent position. The 300 small competitors are a more important factor in the situation than their proportion of present sales would indicate.

"Produce More"—What For?

Under the above heading one of the radical publications which is doing what it can to discourage and lower production in a time when the world's needs are greater than ever before, produces an article by James H. Maurer, President of the Pennsylvania Federation of Labor, which on ac-

count of his position in the labor world may well receive some attention. The article, headings, talics and all, is given verbatim below:

"PRODUCE MORE"—WHAT FOR?
By JAMES H. MAURER

Increased production is everywhere being urged as the remedy for the present unrest. What does organized labor think of it? Here is the answer, by the President of the Pennsylvania State Federation of Labor.

"Speed up; work like blazes; produce more! The world needs our goods—produce, produce, PRODUCE!"

Manufacturers, big and little and politicians from the President down to the ward heeler, are dinning into the ears of the workers the "necessity" for greater production. They tell us workers that the trouble is that we aren't producing enough, that the world needs "our" goods, and that to solve the problem of greater production we must speed up. Let us examine the facts.

For the fiscal year ending June 30, 1919, the total *excess* of *exports* over imports of all commodities was $13,351,906,082. This means that the workers of the United States supported themselves, supported the unemployed within their ranks, supported the entire military forces within the confines of the country, supported the vast body of useless political functionaries and investigation committees, supported the capitalist class and all their lackeys, and on top of all this *produced enough food, clothing, shelter, fuel and other commodities to export nearly thirteen and one-half billions worth more in a single year than was imported.*

You who are the workers sent out of the country 178,583,000 bushels of wheat during that year. Did any of you have too much bread? Did any of you have even enough bread?

You also sent out 27,540,000 bushels of rye, and 24,190,000 barrels of wheat flour and 1,488,000 barrels of rye flour. You sent away five times as much wheat and twice as much rye as in 1918. And between 1914 and 1919 you increased the amount of steam tonnage of the United States by more than 382 per cent.

With a sudden burst of generosity you sent away 1,115,865,000 pounds of sugar last year and 136,230,000 pounds of glucose. Having become used to going without bacon you exported 1,239,540,000 pounds of it to other countries. Not having much bread you sent away 33,740,000 pounds of butter and over eighteen and a half million pounds of oleomargarine. The weight of condensed milk you were not able to buy back with your wages amounted to 728,741,000 pounds.

Just for good luck we offer a few more authentic figures which you might clip out and paste in your shoddy hat for future reference.

With but six per cent. of the population of the world and only seven per cent. of the land, the United States —that means US—produces:

Eighty-five per cent. of the world's supply of automobiles; *seventy-five* per cent. of the world's supply of corn; *sixty-six* per cent. of the world's supply of oil; *sixty* per cent. of the world's supply of copper; *sixty* per cent. of the world's supply of aluminum; *sixty* per cent. of the world's supply of cotton; *fifty* per cent. of the world's supply of zinc; *forty-two* per cent. of the world's supply of coal; *forty* per cent. of the world's supply of lead; *forty* per cent. of the world's supply of silver; *forty* per cent. of the world's supply of steel; *twenty-five* per cent. of the world's supply of wheat; *twenty* per cent. of the world's supply of gold, and refines; *eighty* per cent. of the copper, and operates *forty* per cent. of the world's railroads.

Increase production? Produce more commodities? *What for?* Aren't the workers *now* producing billions of dollars worth more than their wages will buy back—*more* than they are permitted to consume? Is increased production the solution for the problems confronting the workers?

The figures you have just read say *"No!"*

The problem for the worker is, *not* increased production, but *increased consumption.* Not how to produce more, but *how to consume more.*

The outstanding statement of this article is that during the fiscal year ended June 30, 1919, the exports of commodities from this country exceeded the imports by the sum of $13,357,906,082. Upon these figures Mr. Maurer builds his theory that the workers are producing vastly more than is distributed to them, and that therefore they have nothing to gain by producing more.

These figures are grossly erroneous; in fact they exceed the total of both exports and imports for the fiscal year named. The official figures of our foreign trade for that year are, exports $7,225,084,257, imports $3,095,876,728, trade balance $4,129,207,675. So Mr. Maurer's foundation statement is only 30 per cent. true.

There are no census figures for the total production of commodities in the United States in that year, but reckoning from previous figures and allowing for the existing prices, it probably amounted to $70,000,000,000, of which the excess of exports over imports would be about 6 per cent.

The trade balance of last year was an abnormal one, due to the prostration of European industries. The people of Europe were under the necessity of importing heavily and at high prices. The larger part of our exports were farm products, food stuffs and necessaries, without which the sufferings and loss of life of the population of Europe would have been far greater than they were. Thanks to the farmers, not many of whom are under the influence of the doctrines set forth above, the country produced sufficient to allow of these agricultural exports and to save Europe from starvation. Has America done too much in the face of a world calamity, and does Mr. Maurer think the members of his Federation would have been better off, or as well off, if in the face of this emergency the farmers had suddenly determined to restrict their labors to eight hours per day?

United States' Share in World Production.

The figures which are given by Mr. Maurer for the percentages of the important commodities produced in the United States are probably about correct. They make a showing for the enterprise and efficiency of the people of this country of which we may be proud. This is what the industrial system of United States has accomplished. The productive power of the people of this country is greater than that of the people of any other country, mainly because industry in this country works by superior methods and with superior mechanical equipment, and under greater incentive to individual exertion. The investment of capital is larger in the industries of this country, and the

share of the work done by machinery is larger than in other countries.

The country nearest to the United States in this share of the work done by machinery is larger, England was far behind.

In 1913 there were published in *The London Times* and other English periodicals tables compiled from the British Census of Production (1907) and the American census of 1909, showing the total annual production, the number of wage-earners, the horse-power employed, and the annual value per wage-earner in 26 leading manufactures. Seventeen of these were recently reproduced in an article in the *London Times,* and are representative. They are given below. Values are converted at $5 to the pound sterling.

showing that over a term of years the average production of bituminous coal for each miner in the United States was 550 tons and in England 270 tons, which is the more interesting in view of recent revelations that the miners in the United States are not employed more than about two-thirds of the time. It was said that the superior output in the case of coal was due to the use of coal cutting machinery in the United States, and in view of Mr. Maurer's contention that the services of employers or capitalists are superfluous, it may be said that the introduction of coal cutting machinery even in this country has been commonly opposed by the labor organizations. Indeed it must be taken into account that although there are many creditable exceptions among the labor lead-

	Production in dollars per annum omitting 000		Horse-power per wage-earner		Value produced in dollars per wage-earner per annum	
	British	American	British	American	British	American
Boots and Shoes	$100,475	$511,795	.172	.486	$855	$2,580
Boxes, Cardboard	10,335	54,850	.114	.590	530	1,375
Butter and Cheese	50,820	274,555	1.477	5.507	6,550	14,895
Cement	18,105	63,205	3.195	13.873	960	2,360
Clothing	310,845	952,830	.045	.165	790	2,420
Cotton Goods	660,000	628,390	2.214	3.423	1,180	1,660
Clocks and Watches	3,065	36,950	.125	.628	685	1,480
Cutlery and Tools	10,235	53,265	.420	2.069	820	1,615
Dyeing and Finishing Textiles	90,000	83,555	1.949	2.449	920	1,895
Gas Works	104,220	166,810	.687	3.469	2,110	4,485
Hats and Caps	26,280	82,990	.181	.588	745	2,070
Hosiery	43,960	200,140	.163	.804	920	1,545
Paint and Varnish	45,635	124,885	1.375	4.012	4,315	8,770
Paper	68,105	267,655	4.201	15.846	1,650	3,525
Printing and Publishing	67,740	738,785	1.133	1.154	1,980	2,860
Railway Carriages and Wagons	49,250	123,730	1.126	2.274	1,820	2,870
Silk	26,725	196,910	.608	.989	710	1,990
	$1,685,795	$4,561,300	19,185	58,326	$27,540	$58,395

The number of wage-earners in these trades is 1,499,315 in Britain and 1,853,579 in America, or, roughly, as 4 : 5. Averaging all the trades, analysis of the statistics shows: The total production is as 1 : 2.64; the horse-power employed is as 1 : 3; the value of output per wage-earner is as 1 : 2.1.

The superiority of the United States in power equipment means a greater capital investment in the industries, and this accounts for the greater volume of product. It has resulted in a more abundant supply of all the comforts of life, higher wages and a larger and more widespread distribution and consumption than exists in any other country. These results are all related to each other, so that as production increases they all increase in corresponding degree. If all the forces that are working to embarrass and restrict production in this country were turned over to assist it, it is probably not too much to say that the results obtained might compare with present results as favorably as results in the United States have compared with results in England.

Improvements in Industry.

Some months ago we quoted from another English writer figures taken from the same comparative statement of British and American industry,

ers, the attitude of the organizations usually has been antagonistic to innovations and improvements which have the immediate effect of displacing labor. This attitude may be explained and excused even while it is condemned; employers have not always been properly considerate of the workers in introducing new methods but, after all, society is interested in progress in industry, and organized labor has often opposed changes which have proved enormously beneficial to the working people themselves.

Who Consumes the Products?

It will be instructive to look over the above showing of this country's share in the world's industries, and consider the uses of the products named, and how wage-earners, farmers and the great body of the people generally would be affected by increasing or diminishing their production.

The list heads with automobiles, which come

nearer to being appurtenances of the rich than anything else on it, but as 60 per cent. of all the cars made are Fords and probably 85 per cent. are of the cheaper makes, it can hardly be said that the rich absorb a very excessive share even of automobiles.

Corn, of which we produce 75 per cent. of the world's supply, is a common source of sustenance for the whole population; oil, as a source of light, fuel and by-products for the industries, is of common service, and so is copper, zinc and coal, the latter being the chief source of power for all the industries; steel is devoted to the industries; cotton is the clothing material of the millions. Who will be most benefited by greater abundance of all these products, the rich or the poor? Who gets the bulk of these products, or the service from them now, and who will derive the benefits of increased production?

It is remarkable that the United States should have 40 per cent. of the railroad mileage of the world, but can anyone argue that it has more railroad service than it needs, or that the rich enjoy most of the benefits of railroad service? Industry is embarrassed in all parts of the country now, because of the inadequacy of railroad service, partly resulting from discontent stimulated by such reasoning as is set forth in the article quoted above, and partly because there is a lack of available capital to provide needed equipment and make needed improvements.

The Reciprocity of Interests.

The quoted article is typical of the agitation which is deranging industry, curtailing production, raising the cost of living and obstructing the world's recovery from the losses of the war. The author of it plainly has no conception of the fundamental reciprocity which exists throughout modern industrial society. The owners of industries and managers of business are as much interested in the widespread distribution and consumption of products as Mr. Maurer can be. There is no use for capital except in supplying the wants of the population, no need for investments or chance for profits unless the people are able to buy the products. If profits are large, the amount of new capital available for investments will be large, the demand for labor will increase, the expansion of production will be rapid, and more goods will come on the market for distribution.

Mr. Maurer is right in one respect, whether he grasps the full significance of his assumption or not, and that is that the true measure of the distribution of wealth is in the distribution of consumable products, rather than in the ownership of productive property. The value of the latter is in the goods produced and they must be followed into consumption to determine who derives the benefits. When this is done the fallacy of current theories that two or three per cent of the population derive most of the benefits from the country's existing wealth is clearly apparent. The employment of the industries is in producing goods for the masses of the people, and there is bound to be such a continual readjustment of wages and prices as will enable the consuming public to take the current production off the market, otherwise there would be an accumulation and glut, investments would become unprofitable, and further accumulations of capital useless.

The Employing Class.

The proportion of the country's industrial product that is consumed by the people included in what Mr. Maurer calls the "capitalist class and all their lackeys" is a very small part of the total. The number of personal incomes of $10,000 per year and over in this country in 1917 was reported by the Commissioner of Internal Revenue at 161,996, and the number of $5,000 and over at 432,662. A large part of the larger incomes is not expended upon consumption but goes back into the industries for their development. But if the total of all personal incomes of $10,000 and over was distributed to 110,000,000 people the result would be only $32 to each, while if the total of all incomes of $5,000 and over were divided the result would be only $44 each.

No thinking person will dismiss the entire class of proprietors and highly-paid experts as contributing nothing to production. Most of them have made their own way and come to the front through their qualities of leadership and abilities to accomplish results. They have accomplished the innovations which have made the productive power of the American workman double that of any other workman in the world.

If Mr. Maurer's contention is correct, that the present owners and managers of industry are superfluous, why not proceed to eliminate them by the old-fashioned process of competition? Any service that is unneeded can be dispensed with without a revolution. There are 2,000,000 railway employees in the United States, whose incomes average over $1,500 per year, and if they were to save on an average $50 per year each they could buy control of the New York Central system in one year, of Baltimore & Ohio and Erie together in less time, and of all the through lines between Chicago and New York within five years, at present market prices for the stocks. We offer the suggestion as a substitute for the Plumb plan, and it can be adapted for application to the other industries.

Wages Versus Capital.

All of the current product which is not consumed remains as capital to promote production in the future. No matter who owns this capital, so long as it is employed in production for the public market it is devoted to the common welfare. What proportion of the proceeds of industry shall

be distributed for current consumption and what proportion shall be reserved to increase production in the future, thus carrying society forward, cannot be determined arbitrarily. There is a normal balance between accumulations of capital and the average wage rate. They must go along together. If too much is distributed in wages and not enough reserved for the improvement of industry, production will fail to keep pace with increasing population, and progress will be checked until the rising compensation for capital replenishes the fund available for improvements. On the other hand, if too much is withheld from distribution, the buying power of the population will not keep pace with the production provided by the new supplies of capital, and the competition of new supplies of capital for investments and for labor will bring down the compensation, and force a larger distribution.

Samuel Gompers and William B. Wilson on Production.

We are unwilling to allow the article quoted above to pass as representative of the most intelligent or most influential opinion in the American Federation of Labor. It is not. The radicals have been working to capture the Federation and have succeeded in getting their men into many positions of leadership, and of dictating in many instances the policies, but the leaders of experience have a better knowledge of the economic law. An interview by Samuel Crowther with Samuel Gompers, which appears in the April number of *System*, quotes Mr. Gompers upon the subject of Production as follows:

"Only out of production can we all grow prosperous and every aid to production that does not involve human waste is a benefit to society. If the added production is gained at the cost of a human being then it does not help society, because even from a cold standpoint of economics it tends toward overproduction by destroying in the very making of the product those who would directly or indirectly buy that product. Whatever are the evils in the distribution of the products of work (and there are many of them), those evils are not going to be cured by producing less.

"That will not solve the problem of distribution. That will provide humanity with one bone instead of two to snarl about. As I said before, I am in favor of every possible device which will increase the productivity of human labor and increase its standards. This is best done with the assistance of science. There can be no objection to really scientific management—(not the so-called scientific management with its stop-watch methods and bonuses), that which is for the benefit of all of the parties to industry and not only of one. As an employer I should know that it would be shortsighted to expect to get steadily more from my workers and at the same time give them steadily less.

"The better industrial engineers who are interested in improving industry and not merely in coddling employers know this to be a fact and they regard an inequality in pay—that is, a pay which is less than the performance—as a waste of human resource, and pursue such wastes as belligerently as they pursue any other wastes.

"I think that scientific industrial instruction can best be given and possibly can be given only in cooperation with the workers and with committees of the workers so that none will have to work blindly. I am quite sure that the assurance that the improvement of methods will be for all will invite the most active cooperation on the part of the union officers.

"The old 'ca'canny' methods originated by the Scotch, the limitation of production, the idea that there is only a certain amount of work in this world to do and that it must be spread out thin, are dead and ought never to be revived, and will never be revived. As an employer I should discriminate between the union organized for work and the organization falsely called a 'union' which is organized to prevent work."

The Hon. William B. Wilson, Secretary of Labor, has frequently spoken out clearly upon this point. In one of his speeches he said:

"In looking back over the history of our industrial development we wonder why it was that in the early days of the introduction of labor-saving devices workingmen vigorously protested against them, even to the extent of attempting their destruction. We have made much progress since then, and we now realize that every device, and every method that can be introduced by which a greater amount of production is secured by the same amount of labor is a material advantage ultimately to all the people of the world. The experience of the boy brings out clearly the reason for the antagonism of workers to the introduction of machines. It was due to the fact that all of the burdens, all of the hardships and all of the cost of readjustment incident to the introduction of such machines had to be borne by the wage workers. It did not appeal to them that future benefits would be derived from the use of the machine in view of the fact that it brought immediate and present want to them."

These expressions are sound on the fundamental proposition, and afford a basis for approach to all industrial disagreements. There will be disagreements, and serious ones, but if there is agreement upon the basic principle that the common interests of society shall be paramount, the conflicting claims can be adjusted.

Wildcat Flotations.

We referred last month to the absorption of capital which is taking place over the country by the flotation of stock companies for various kinds of enterprises, some no doubt meritorious, but many of a dubious character, and most of them promoted in an expensive manner which is a serious obstacle to success.

Under date of March 31 the Iowa Bankers Association issued another of a series of circular letters on this situation. This one is addressed to County Agents and Secretaries of Commercial Clubs, and encloses a printed questionnaire which is designed to be submitted to traveling stock salesmen for them to fill out, and to bring out the important information which an investor should have, including the amount allowed for promotion expenses, etc. The first paragraph of this letter describes the situation as follows:

It is more than well known to you that Iowa is today over-run with stock salesmen. Without question there has come to your attention woeful examples of how the farmers of your community or the individuals of your city have paid the price of investing in Blue-Sky concerns. It is said that $200,000,000 has been spent in Iowa for Blue-Sky stock; much of which has been found to be absolutely worthless and a total loss to investors. Men and women have worked hard for years, have accrued some savings and property and have lost a greater part or all of such life's earnings because they have been influenced by the smooth tongue of some Blue-Sky artist, to exchange that savings for some certificate of worthless stock.

The Des Moines Register refers to the discussion of this subject in this letter last month and says:

> It is impossible to estimate the total amount of credit that has been used in Iowa in the last year for purchase of promotion stocks, that credit being represented by promissory notes. In effect the issuance of all these notes has constituted in itself an enormous inflation; it has vastly increased the amount of credit in circulation, for credit in cases like this circulates as truly as gold itself. Everybody now understands at least that high prices represent chiefly depreciation of the dollar, and that depreciation of the dollar is due to the fact that for every unit of consumption goods in the country today there are several times as many dollars in currency or credit circulating.

The Attorney-General of the State of Iowa has made the statement that of $3,800,000 subscribed to the capital of the new packing company organized at Des Moines, to which reference was made in this letter last month, about $1,000,000 went for promotion fees.

Additional Branch Banks.

The National City Bank of New York has recently opened three additional foreign branches, and the International Banking Corporation, (owned by The National City Bank) has opened one new foreign branch. The two organizations together now have a total of 85 branches—The National City Bank 56, and the International Banking Corporation 29.

Opening of the City Bank's branch in Nuevitas gives the Bank a total of 25 branches on the Island of Cuba alone. The Bank's new branch at Madrid is its second in Spain, and its branch at Lima, Peru, gives it a total of twenty branches on the South American continent. By a mere coincidence the branch banking houses at Madrid and Lima—one at the capital of modern Spain, and one at the former capital of the Spanish empire in the New World—were opened on the same day.

On April 12 the International Banking Corporation opened at Barahona its sixth branch in the Dominican Republic.

Bond Market.

April opened with a continuation of the conditions which prevailed during March, namely, steady prices and a broadening interest among investors. The market received a real test during the second week of the month when $50,000,000 Pennsylvania Railroad Ten Year 7 per cent Bonds and $36,225,000 New York Central 7 per cent Serial Equipments were offered at par and interest and were promtly sold.

During the middle of the month a reaction set in. Prices became irregular and continued so until the close. United States Government bonds, which had displayed a stronger tendency at the opening of the month were liquidated in large amounts, the selling being attributed to the necessity of large holders obtaining funds as a result of high money rates. In spite of market conditions corporate issues were offered in substantial amounts, the tendency turning toward fixed maturity obligations rather than preferred stock issues.

The appearance of 7 per cent coupons on the bonds of our standard railroad systems leads to an interesting comparison with conditions following the Civil War. The railroads at that time had to contend with a period of reconstruction and also with a tremendous national development. The following is a list of a few of the issues which were offered, together with the prices which were ruling in 1880 and 1890:

		Dated	Due	1880	1890
Central of New Jersey Cons. 7s	$15,000,000	1874	1899	106	121
Chic., Burlington & Quincy Cons. 7s	13,068,000	1873	1903	124	127
Chic., Milwaukee & St. Paul Cons. 7s	7,304,000	1875	1905	115	126
Chicago & Northwestern Cons. 7s	5,198,000	1865	1915	126	142
Louisville & Nashville Cons. 7s	7,070,000	1868	1898	117	118
Michigan Central 7s	8,000,000	1872	1902	124	127
New York Central & Hudson River 1st 7s	18,465,000	1873	1903	130	130
Union Pacific R. R. Sinking Fund 8s	13,630,000	1874	1893	116	116
Morris & Essex 1st 7s	5,000,000	1864	1914	129	147
Pennsylvania R. R. (Pitts. & St. L.) 1st 7s	6,222,000	1868	1900	136	115

Financial comment during the summer and fall of 1866, a year and a half after the close of the Civil War, was somewhat similar to present day articles on financial and economic conditions. The following quotation from a letter by Mr. McCulloch, Secretary of the Treasury in 1866, is taken from the Commercial & Financial Chronicle:

> "Since March 1865 the War has been brought to a successful conclusion and immense armies have been disbanded. If no other nation ever rolled up a debt so rapidly, none, certainly, ever commenced the reduction of the debt so soon after its creation. If our currency is depreciated we have, so far, escaped the financial troubles that usually occur among nations at the close of expensive wars, and which, there was reason to apprehend, would happen to us at the termination of the great War in which we have been engaged. If our taxes are heavy, our resources are almost unlimited.
>
> "I do not disguise the fact that great financial difficulties are still to be overcome; that our present prosperity is rather apparent than real; that we are measuring values by a false standard and that we are, in fact, exposed to all the dangers which attend an inflated currency, stimulate speculation and extravagance and lead to thriftlessness and demoralization. Before the country becomes again really prosperous, the specie standard must be restored, prices reduced, industry stimulated, the products of the country increased and the balance of trade between the United States and other nations cease to be against us. That the country will be again thus really prosperous is as certain as anything in the future."

The combined average of 40 active corporate issues reported by the Wall Street Journal on April 27 was 74.09, compared with 77.68 for March 27 and 84.41 for April 27, 1919.

While the closing weeks of April have displayed pessimism in financial circles, nevertheless conservative investors are realizing that the present offers exceptional opportunities for obtaining high yields on securities of our strongest corporations. They also realize that prices may go lower if the demand for capital continues, but the trend of bond prices, which has been tending downward for some time past, must eventually enter the upward swing.

Investors are beginning to feel that through the purchase of 7 per cent coupons today they will participate in a repetition of the financial history which followed the Civil War.

Railroad and Corporate Issues.

The outstanding feature of the railroad market was the prompt sale of the Pennsylvania and New York Central issues and the maintenance of their prices in spite of the declines in general issues during the last half of the month. Many high grade railroad bonds sold at prices which yield less than Liberty Bonds at their low levels and this would seem to indicate that the rails have been purchased for permanent investment. The Supreme Court decision in the well known Reading case resulted in active speculation in Reading General 4s, which advanced 9½ points to 82½ and Reading-Jersey Central 4s, which advanced 17 points to 89. These advances served to strengthen the issues of certain railroads which have been interested in Reading securities.

Industrial financing continued in a broad way in spite of discussions regarding the contraction of general business. Some of the larger offerings include:

$50,000,000 Sinclair Consolidated Oil 7½% Notes to yield 8%
30,000,000 B. F. Goodrich Co. 7% Notes to yield 7.40%
12,000,000 American Can 6 to 9 months Notes on a 7½% basis
7,500,000 Associated Simmons Hardware Cos. 7% Notes to yield 7½%
3,426,000 General American Tank Car 7% Equipments to yield 7½%
3,000,000 Consolidated Textile Corp. 7% Notes to yield 7.50%

Several industrial preferred stock issues were offered in small amounts yielding from 7½ per cent to 8 per cent. Standard Oil Company of New Jersey offered $100,000,000 7 per cent Preferred Stock to the stockholders at par.

The largest offerings of public utilities included three telephone issues, namely:

$25,000,000 Southwestern Bell Telephone of Missouri 7s to yield 7.60%
5,500,000 Bell Telephone of Canada 7s to yield 7.50%
1,000,000 Ohio State Telephone 7% Notes to yield from 7½% to 8%

Other public utility issues include:

$10,000,000 Pacific Gas & Electric 7% Notes to yield 7.70%
2,000,000 Buffalo General Electric 7% Notes to yield 7.60%
2,000,000 Milwaukee Electric Railway & Light 7% Notes to yield 8%
2,500,000 Union Electric Light & Power 7% Notes to yield 8%
2,000,000 United Light & Railway 7% Notes to yield 8%

Government and Municipal Issues.

The market for United States Government bonds was extremely erratic throughout the month. Liberty 3½s, which at the opening reached a high of 97.80 compared with a low of 94 in February, declined to 93 before the close. The fear that Congress might pass a bill providing for a soldiers' bonus, thus necessitating another bond issue, was frequently cited as a cause for the extreme liquidation, but the principal selling seemed to come from corporations which preferred to sell their Government bonds rather than pay from 8 per cent to 10 per cent for money which they needed as working capital. Another important influence was undoubtedly the withdrawal of market support by the Treasury Department in connection with purchases for the 5 per cent Fund. The 4¼ per cent issues were heavily traded, the Fourth 4¼s reaching a low price of 84½ to yield about 5.60 per cent, while the Victory 4¾s sold at 96 to yield about 6.15 per cent.

The municipal market was fairly active with firm prices at the opening of the month and during the first week there was a substantial volume of new offerings, the largest being $7,868,000 State of Massachusetts Serial 4½ per cent and 5 per cent bonds at prices to yield from 4½ per cent to 5 per cent. Last month an issue of $2,700,000 State of Massachusetts Serial 5s were sold at prices to yield from 4.55 per cent to 5.25 per cent. The decline in the Government bond market found its reflection in the municipal market and during the last half of the month the inquiry for municipals diminished materially. A number of important issues which were advertised were not sold as a result of the interest rates being too low to allow their sale at par or better as required by law. Canadian issues were in fair demand, an issue of $6,800,000 Province of Ontario Five Year 6s being offered on a 7.20 per cent basis.

Federal Reserve Bank Discount Rates.

Rates on paper discounted for member banks in effect April 27, 1920.

Federal Reserve Banks	Discounted bills maturing within 90 days (including memberbanks' 15-day collateral notes) secured by			Bankers acceptances maturing within 3 months	Trade acceptances maturing within 90 days	Discounted bills secured otherwise than by Government war obligations, also unsecured, maturing within	
	Treasury certificates of indebtedness		Liberty bonds and Victory notes			90 days (including member banks' 15-day collateral notes)	91 to 180 days (agricultural and live-stock paper)
	5¼%	All other					
Boston	5	5	5½	5	6	6	6
New York	5	5	5½	5	6	6	6
Philadelphia	5¼	5	5½	5½	6	6	6
Cleveland	5¼	5	5½	5½	5¾	6	6
Richmond	5¼	5	5½	5	6	6	6
Atlanta	5¼	5	5½	5½	6	6	6
Chicago	5¼	5	5½	5½	6	6	6
St. Louis	5¼	5	5½	5	6	6	6
Minneapolis	5¼	5	5½	5	5¾	6	6
Kansas City	5	5	5½	5½	6	6	6
Dallas	5	5	5½	5½	6	6	6
San Francisco	5	5	5½	5½	6	6	6

NOTE—Rate on paper secured by War Finance Corporation bonds 1 per cent higher than rate on commercial paper shown in column 6.

1920

Economic Conditions
Governmental Finance
United States Securities

New York, June, 1920.

General Business Conditions.

THE recent partial breakdown of our transportation system, causing in some quarters a refusal to renew credits, has resulted in realizing sales of merchandise. However, there is a tendency to exaggerate their importance in the general business situation. There is no doubt that credit here, as in all of the principal countries of the world, is inflated. But it would be a mistake to assume that we are on the eve of immediate deflation on a large scale. The great need of the time is an increase of production, and in the long run a large output of necessary goods will be the chief instrument in reducing the relative amount of credit used in the conduct of business. Immediate and drastic steps should be taken to cure our transportation evils, but when it comes to what is called the rationing of credit, it is important that every case be considered on its individual merits, and that the greatest discrimination be exercised in order to facilitate the production of necessary goods.

Inadequate Transportation.

The most serious phase of our present situation is the deplorable state of railway transport. The outlaw strike of the switchmen, which has not yet come to an end in some parts of the country, has almost paralyzed the movement of goods. In all industrial centers, railroad terminals and ports, merchandise is gathered in mountains awaiting shipment. During the month of April over fifty thousand automobiles were driven from western factories to distribution points in the East and elsewhere, in some cases being carried under their own power for more than one thousand miles. At a time when the foreign demand for American cars is largely increasing, inadequate railroad transportation has reduced the automobile industry to sixty-five per cent of its normal production and has had an even more disastrous effect on the steel business. In 1916, 1917 and 1918, the per ton mile of freight increased 47 percent, while the freight cars in service during the same period increased only 1.9%. In many of the great cities, and especially in New York, the food supply of the population is being jeopardized. As was said in the Bulletin of the Merchants Association of New York, "a condition which compels southern farmers to plow their crops under while the consumers of this city cannot purchase food is intolerable." The impossibility of moving freight from places where it is produced to points where it is needed has put a heavy strain upon bank credit. In the Northwest, it is urgent that grain be moved, and yet in that region there are 73% more coal cars and 16% fewer box cars than are needed. As a result, it has been necessary to extend paper, which should run only ninety days, to eight and even ten months, because the owners of the grain cannot realize on it. In the same way, the tie-up of transportation has had a disastrous effect upon our entire industrial and commercial life. Until this great problem is solved, the business life of the country can not continue to function properly.

Retail Trade.

The insufficiency of railroad transportation and the tightening of credit have brought about clearance sales of merchandise at retail, and this movement, begun in the east, has somewhat affected other centres. Unseasonable weather and the tie-up of funds left some retailers with large stocks on hand. Then the banks demanded liquidation and the public, having finished its saturnalia of extravagant spending, struck at the high prices. Reductions of from 20 to 50 percent created an unprecedented demand. Some department stores have even cut the price of food in their restaurants, and in Omaha the prices of automobiles have been reduced by from $250 to $400.

Shoes, cotton and woolen goods, silks and furs have met with important reductions. As an indication that extravagant buying has diminished, jewelry and other luxuries even show a lessened demand at the lower prices. For more than three years retailers have been competing with each other to get goods and this competition has resulted in an inflation of credit.

Not too much should be expected, however, from the sporadic price-cutting of the moment. This country, as well as the rest of the world, is suffering from an under-production of essential goods, and a permanent lowering of prices is dependent upon the deflation of credit and currency and a reduction of industrial costs by a scaling-down of wages and of the cost of primary materials. These operations require time, and until they are accomplished, and until production is notably increased, it is improbable that a lower permanent price level will be maintained.

Manufacturing Activity.

Throughout the country generally the defective railroad service throws its shadow over manufacturing operations. In steel and allied industries, the delay in obtaining raw materials, if long continued, may become most serious. Unfilled steel orders appear to be unusually heavy, but this is owing to the fact that shipments which should have been made sometime ago are still held up. American steel and iron are keenly demanded abroad, at prices somewhat above those here. In the Pittsburgh region, there is a stupendous accumulation of about 1,500,000 tons. The entire steel industry as well as other important lines are facing the possibility of a serious coal shortage, which would tend not only to hamper manufacturing operations, but to increase their cost. The curtailment of production in steel and related branches is causing such concerns as Ford of Detroit and others to reduce their office forces by 20 per cent. In the South, the iron production is large, with orders from Italy and Germany in hand, but lack of transportation is holding business in check.

Textiles.

All the textile raw materials, wool, cotton, jute, silk, etc., are tending lower, and the stocks which manufacturers have on hand, with some exceptions, are not large. Manufacturers generally regard some reduction in prices as inevitable, and would in fact welcome it, desiring of course that it should be gradual in order not to demoralize operations.

Some of the larger manufacturers of woolen goods have recently declared wage increases, the American Woolen Company adding 15%, which will total, since January, 1916, an increase of 111% to its employes. The following remarks made by Mr. Nathaniel Stevens, president of the Woolen Goods Exchange, at the annual meeting in New York, shows the basic conditions in this industry:

"At the time of our last annual meeting the industry was recovering from depression caused by cancellation of Government orders. During the last year we have been in the midst of an active market with advancing prices. The scene has changed again, and we are face to face with serious problems. We have now before us the problems which faced the manufacturers at the close of the Civil War. They are problems which this generation has never been called upon to meet.

"We are confronted with high priced raw materials and extreme labor costs, which in the future must be revised. One of the most serious situations we have to consider is the utterly deplorable condition of the transportation system of the country. It is a great industry which is vital to our own business. Without sufficient transportation to move our inward and outward freight, it is useless to manufacture. I have no hesitation in saying that millions of dollars' worth of goods are in the hands of the manufacturers which could be consumed but for inadequate transportation.

"We are fortunate at this time in having a good banking system and a population of more than 100,000,000 people to consume our products. The days of wearing overalls and worn-out clothing will soon be over, and when the consuming public believes prices stable, a demand will arise which will employ machinery to its fullest extent."

The retail stores are cancelling their orders for clothing on a very considerable scale. The most difficult problem that is facing not only the manufacturer and jobber of woolens, but the maker of apparel, is to determine how far the present tendency of the public to reduce their purchases of clothing will go.

Cotton Goods.

If transportation and the price situation were normal, it is probable that, in the aggregate, the accumulations of cotton goods at the mills would not overwhelm the market. The consumer, feeling that retail prices are too high, shows a tendency to restrict his purchases. The *American Wool and Cotton Reporter*, recognizing that prices must be reduced in order to bring the public into the market on a large scale, has this to say:

When over 75 cents a yard is asked for ordinary percales of unsatisfactory patterns, and when 150 per cent. gross profit, or more, is asked for low quality voiles, it is time to call a halt. The manufacturer has obtained large profits, but they are ridiculously small as compared with what the retailer has been adding to the price of goods, and which have been responsible for the reduced distribution. A much better balance between supply and demand has been established, and it probably will not be long before there will be a much more stable market, and a buyer can place orders with reasonable assurance that lower prices cannot be expected before the goods can be disposed of.

Farm Production and Food Products.

According to present indications, the cotton crop will not be any better than last year. Excessive rains in the southeastern states have necessitated a great deal of replanting, although in Texas it is believed that they have improved the crop. Some decline in the British and general European demand for cotton has been noticed recently, the disinclination to buy being accentuated by the depreciation of their exchanges. On the continent, some merchants are seeking to cancel their cotton shipments due for delivery next fall. The production here is suffering from an acute shortage of labor, and while some advocate a large increase in acreage, others fear that there are not enough laborers to care for the plant during its growing period, especially if the heavy rains cause an unusual growth of grass. Ac-

cording to the United States census bureau, the supply of raw cotton is at the lowest point in history. It is estimated that in all the markets of the world, the total supply of American cotton is about 4,000,000 bales, of which nearly one-third cannot be used for spinning. A resolution was recently passed by Congress requesting American consuls to co-operate with governmental departments in order to determine how much cotton will be needed by manufacturers abroad before the 1920 crop becomes available.

Grain and Foodstuffs.

In the northwest a marked improvement in the weather permits the sowing of barley and oats, and corn will soon be planted. The wheat acreage, although less than that of last year, will be made up by a larger sowing of barley, oats and flax. In the southwest, abundant rain and warmer weather are rapidly bringing the wheat crops to maturity. In general, winter wheat is making satisfactory progress and in many instances has shown recently a very marked improvement. Generally speaking, the early sown spring wheat has come up to a good stand. Both oats and barley are doing especially well in the central part of the country.

Prices paid for farm products at the farm show a decided tendency to recover from their recent slump. According to the monthly report of the Department of Agriculture, producers of the principal crops received a general advance of 8.4 per cent. over the figures for April. On the other hand, there are many indications that the prices of food will begin to decline very soon. According to Mr. H. H. Jones, Commissioner of Foods and Markets of New York City, the food cost decline is not a deliberate price-cutting.

"It is the natural development of natural causes. It points to a steady decline all through the summer as the supplies increase. Last week farm products went down markedly except in the case of potatoes, for large supplies were coming in from the South. With good weather keeping up, the Interstate Commerce Commission seeing to it that shippers get freight cars and the transportation situation clearing up generally there ought to be good news for Mr. and Mrs. Charles J. Consumer and the little consumers.

"Retailers have had a part in the price reduction by refusing to pay the extortionate prices demanded by the wholesalers. Let consumers take the hint in food and in everything else and we will see prices come down with a run and stay down. Something of that sort is going on now. Vegetables have fallen off 20 to 25 per cent. Meat on the hoof is dropping because the farmer finds it too costly to feed and must sell. Lambs have dropped 2 cents a pound, for example. Veal is on 1 cent and hogs 3 cents in the last two or three weeks. The farmer is getting lower prices for his butter and eggs. The whole situation is encouraging."

Bradstreet's Index Number for the week ending May 22, based on the prices per pound of thirty-one articles used for food, is $4.97, which compares with $4.97 for the week previous and $5.09 for the week ending May 22, 1919. This week's number is unchanged from last week, but shows a loss of 2.3 per cent. from the like week of last year.

Among the staple grains, corn is down 10 cents a bushel; rye, 12 to 18 cents; oats, 6 cents; barley, 5 to 7 cents; wheat, 15 to 20 cents. As a result, flour is cheaper and meat also. It is probable that dairy products will also decline as soon as transportation improves.

Sugar.

Mr. Hoover, testifying before the House committee regarding the sugar situation, declared that the price per pound, instead of 22 to 25 cents, would now be 12½ cents if the sugar equalization board had been authorized to purchase the Cuban crop last July, when it was offered at 6½ cents. Mr. Hoover remarked that one of the reasons for the high cost of sugar to-day was the world competition for the Cuban crop. He said that the Cuban planters themselves, even though they benefited tremendously, for the time being, from the high prices prevailing, were opposed to them because it means that sugar production will be greatly stimulated in all parts of the world and thus will ultimately react against them. Mr. Hoover recommended rationing of sugar as a means of preventing its price from going higher.

Labor Conditions.

As has already been remarked, the dearth of transportation, reducing supplies of fuel and raw materials, has caused much idleness in the industrial centres. In Detroit, 30,000 men are out of work. At Haverhill, the shoe factories have dropped nearly 1,000 cutters. Many cotton goods mills, especially in New York, are contemplating a shutdown, as their employees appear disinclined to work on full time, while in Bridgeport some plants are operating only three days a week.

There is a curious situation among the textile workers, where 15 per cent. wage increases have recently been granted, affecting 300,000 operatives, in spite of the fact that there has been heavy reductions in the retail stores of cotton and woolen apparel.

It is on the farm that the labor shortage is most acute. Unless immediate steps are taken to shift more workers to the farms, there is danger of a drastic curtailment of agricultural production. For some time, as we have on several occasions pointed out, the "farm to city" movement of labor has been increasing the output of automobiles, steel products, etc., at the expense of the nation's food supply. Not only the high wages, but the short hours are an inducement for the farm hands to seek employment in the city. From all parts of the country, with the exception of the Pacific states, nothing seems to stop this emigration from

the land. The Council of National Defence will be asked by Secretary of War Baker to consider the advisability of curtailing some of the non-essential industries in order to divert labor to farm work. We have here a problem whose solution is of the utmost urgency, for agricultural production on a large scale is of vital moment, not only for our own people, but for the entire world.

Renewed Immigration.

According to the *Journal of Commerce*, in spite of fewer steamship entries, nearly 9,000 new immigrants arrived at Ellis Island last week. The Superintendent, Mr. P. A. Baker, said:

> Immigrants are coming to this country as fast as the limited transportation facilities can bring them.
>
> There is every evidence that even with the post-war passport restrictions there would be the greatest rush of people to this country ever known in the history of immigration if there were only ships to bring them.
>
> Few of the immigration theorists ever stop to consider what New York as a port, suffered by the war.
>
> Considering the great loss of ships and the further curtailment by the passport requirement, the average of 10,000 incoming aliens a week must be taken to mean that if the old vessels were here again we would be swamped with immigrants seeking to put war-stricken Europe behind them,

The Revival of Railroad Credit.

In the nine months subsequent to last July, practically no financing was undertaken by any American railroad for the purpose of raising fresh capital for additions, betterments or equipment. Such a long period of absence from the investment markets is without precedent. The past two months, however, have witnessed a surprising revival, approximately $200,000,000 of new securities having been issued by the railroads and purchased by investors. This change is due primarily to two causes.

The Transportation Act of 1920 became a law on February 28th, and has been generally accepted as the first really constructive railroad legislation since the Interstate Commerce Act itself. Increased confidence in railroad securities was promptly demonstrated by a rise in prices on the Stock Exchange.

Second, the offerings by some of the premier railroads of their ten year 7% bonds at par have made an appeal that investors could not resist. One must go back forty-five years to find the Pennsylvania Railroad Company, for example, selling a 7% obligation.

No deterioration of railroad credit is indicated by the high bases on which this recent financing has been done, since industrial corporations of the best credit have contemporaneously offered their bonds and notes to the public on a 7½% and 8% basis. These very high rates are world wide and reflect the enormous demand for capital by enterprise of all kinds. The fact is that railroad securities have always been preferred investments in this country, and it should be possible for a number of strong companies to raise substantial amounts of money from time to time unless the entire investment market receives a check. The recent railroad financing has been confined to those carriers enjoying the highest credit, such as the Pennsylvania, New York Central, Northern Pacific, etc., but the public financing of the weaker roads is, in all probability, out of the question for the moment.

Commerce requires large amounts of money to be spent on the railroads but all borrowers are seriously embarrassed by the state of the market. In investment banking there are three reservoirs from which to draw; that of institutional money, that of large individual capital, and that of small capital. The reservoir of institutional capital is available only to a very limited extent at the present time. The reservoir of large individual capital is practically closed to taxable securities, and it is, in any event, greatly diminished in size as the result of the surtaxes on incomes. Therefore the investment bankers must turn to the reservoir of small individual capital, which is a very broad one, and one which has increased in size materially since the beginning of the war, but it is a very shallow reservoir and is drained dry by a rapid output of new securities. For this reason investment bankers have been very cautious in estimating the amount of public financing that the railroads could successfully do this year.

The Needs of the Railroads for New Capital.

Every industry needs more capital today but not one needs it more desperately than the transportation industry. The railroads' problem is the more acute because they must make up past deficiencies as well as prepare for future needs. A progressive management endeavors to keep from five to seven years ahead of actual traffic demands. Today the railroads are far behind current demands. The blame for this situation rests on the public, not on the railroad managements. After the adverse decision in the 1911 Rate Cases the amount of new money which the railroads were able to raise by the sale of their securities steadily diminished. The amount invested in 1916 was only 30% of the amount invested in 1911. While an average of $600,000,000 per annum was spent for additions, betterments and equipment during the two years of Federal control, this sum, because of the great advance in the prices of labor and materials, was far short of the minimum requirements. It will be impossible to correct in a few months the deficiencies which have been accumulating for years. The shippers who a few years ago fought the railroads before the Commission so vigorously must for the present be content

with the kind of transportation they were willing to pay for. The country is now paying the price of the policy of repression which dates back to 1911.

Testimony was recently offered in Washington by railroad executives showing that $610,000,000 of equipment is needed at once if the carriers are to give good service. These estimates call for

100,000	freight cars	costing	$370,000,000
3,000	passenger cars	"	90,000,000
1,000	baggage cars	"	20,000,000
2,000	locomotives	"	130,000,000

Between 1906 and 1916, 150,600 new freight cars were put in service annually, while 80,000 to 85,000 were retired each year. In 1917-1918-1919, new cars averaged less than 100,000 per year. In the decade prior to the war, 3,100 new passenger cars were added to the equipment list annually. In 1918 only 131 new cars were delivered and in 1919 only 292. By a similar calculation it is demonstrable that there is a present shortage of 3,000 locomotives.

The necessity of getting maximum service out of existing equipment prevents proper maintenance. In August, 1917, 14% of the freight locomotives of the country were in bad order. In January, 1920, 27.3% were nonserviceable. Complaints are also general that freight equipment has seriously deteriorated during the Federal control period.

The Transportation Act appropriated $300,000,000 to be used for the purpose of enabling the carriers properly to serve the public during the transition period immediately following Federal control. The framers of the legislation believed that the other provisions of the Act would restore credit sufficiently to enable the stronger companies to finance themselves and that this fund should be largely reserved for the weaker roads. In view of the urgent demand for increased facilities the proposal has recently been made that an additional $300,000,000 to $500,000,000 be appropriated. While it is perfectly true that the United States could scarcely invest money to greater advantage than by assisting the railroads, it is also true that such further appropriation cannot be justified if more burdensome taxation should result. The Government already owns $354,000,000 of equipment trust certificates and $490,000,000 of additional debt evidenced by bonds or notes; if the $300,000,000 appropriated by the Transportation Act is also invested forthwith in railway loans the Government will hold approximately $1,100,000,000 of the railway securities of the country.

The Railroad Blockade.

Railroad transportation during the past month or so has come perilously close to a complete breakdown. The shortage of facilities described above, is only in part responsible. The so-called "outlaw" switchmen's strike, intensifying the shortage of man power on the roads, is far more to blame. Western shippers were so roused that a delegation appeared in Washington before the House and Senate Committees on Interstate Commerce. They testified that there are 32,000,000 bushels of grain of last year's crop in country elevators which cannot move into consumption because cars are not available. They also reported that there is today a large amount of grain in the terminal elevators in Minneapolis that was sold for export as long ago as last December. The general manager of a short line railroad in Texas testified that on the Rio Grande within the past sixty days farmers have lost, according to calculations, over $1,000,000 on cabbages and potatoes which rotted because there were no cars. From the Pittsburgh district comes the report that a million and a half tons of fabricated steel have accumulated in the mills. It is also said that a car load of steel which left Pittsburgh January 4th arrived in New York May 14th. Motor trucks have been utilized to a considerable extent, but the increased expense, which must ultimately fall on the consumer, is enormous. One shipper who engaged three trucks to send a consignment of goods from New York to Pittsburgh found that the cost of such transportation was five cents a pound, or about twenty times the railroad rate of less than one cent a ton mile. That the railroads have appealed to the Commission to exercise the emergency powers granted by the Transportation Act is no confession of the failure of private managements to make good—as a few newspapers that have for years tried to foist government ownership on the country have promptly alleged.

The Duty of the Interstate Commerce Commission.

On April 7, 1920, Judge C. A. Prouty, Director of the Bureau of Valuation, stated in a remarkable address before the Chicago Association of Commerce: "Nothing can improve railroad credit like a liberal attitude on the part of the Commission which would enable the carriers to accumulate something substantial for the first year or two in addition to their bare necessities. I believe, therefore, that if you desire to make private operation a success your first thought should be to secure the carriers rates that are too high rather than too low."

The Commission used to consider its principal function to protect the public against the

carrier. It is now directed by statute to protect the carrier and preserve the fair interest of the railway investor.

Before the first of September, the Commission must readjust the rate schedules in order that the carriers as a whole may earn in the various rate-making regions, not less than 5½% on the fair values of the properties engaged in the service of transportation. The work of the Bureau of Valuation is not far enough advanced to be of much help in determining what the fair value is at this time and the Commission must find some temporary standard. At hearings held in Washington, March 22nd-24th, the railroad executives urged the use of the railroads' figures of value, namely, the property investment account, as the standard pending the completion of the final valuations. While admitting some imperfections in these accounts, we confidently believe that the element of error is so small at the present time as to be negligible. The temporary use of the book values would be reassuring to investors and a convincing proof of a liberal attitude on the part of the Commission.

Replacement Costs.

An extremely interesting study in defence of the property investment accounts has been presented to the Commission, which expands the tentative value found in the cases of the Texas Midland, Kansas City Southern, Winston-Salem Southbound and in the Rock Island engineering and land reports. The computation is made as follows:

The average cost of the locomotives, 1,895 in number, owned by these four railroads as of June 30, 1915, was $15,400.43 each, as reported by the Commission. Applying this average cost to the 66,502 locomotives in the United States on that date, the locomotives of all the railways would be worth $1,024,159,396. A similar process was applied to all the equipment with the result that the total reproduction cost of equipment in the United States was $3,776,944,805. The value per mile of station buildings, shops, shop machinery, engine houses, bridges, terminals, etc., was similarly arrived at. Thus the total cost of reproduction for all railroad property, exclusive of single main line track amounts to $9,549,334,129. That this figure is below that which the Commission will ultimately find for the railway plant of the country, exclusive of main line track, is a fair assumption in view of the character of the four properties which are here used as a basis.

The property investment account of the carriers on June 30, 1915, was $17,405,069,256. Deducting the $9,549,334,129 (stated above) leaves $7,855,735,127 to represent the cost of reproducing the 238,246 miles of single track road, or $32,973 per mile.

On the basis of the units and unit prices reported by the Commission, cost of reproduction of the single track mileage of the Rock Island Railway is $32,512 a mile. The Rock Island is a prairie road and the land values in the territories served by it are relatively low as compared with the country as a whole. Therefore, when the property investment account thus analyzed results in a valuation of $32,973 per mile of single track for all the railways of the country, compared with the valuation, as reported by the Commission for the Rock Island of $32,512, it is clear that the property investment account is fully sustained.

Higher Rates Imperative.

After the temporary valuation of railroad property has been determined the Commission must establish rates, to conform to the requirements of the Transportation Act, of a minimum of 5½%, but the law allows the addition of a further ½ of one per cent, in the discretion of the Committee. It is to be hoped that the Commission will be guided by Judge Prouty's suggestion and make rates too high rather than too low, aiming to let the roads earn the full 6% permitted by the statute. Since no one can forecast the volume of traffic which the railroads will move in the year to come, the readjustment of rates to produce a return of 5½ or 6% is a problem of the greatest difficulty. Should the net operating income fall short of 5½%, the whole purpose of the Transportation Act—the restoration of railroad credit—is defeated. On the other hand, a 6% return will place the roads in a position of reliance on their own credit and should terminate their dependence on the United States Treasury for financial assistance. The sooner the United States Government can get out of the railroad business the better for the Government and the railroads.

The Interstate Commerce Commission has become so powerful a body that great interest has been manifested in the appointments for the three places to be filled, the membership of the Commission having been enlarged from 9 to 11, and one vacancy already existing. The appointments, which have not yet been confirmed by the Senate, are as follows: Henry Jones Ford, Professor of Politics, Princeton University; James Duncan, of Quincy, Mass., formerly Vice-President of the American Federation of Labor, and Mark W. Potter, New York, President of the Carolina, Clinchfield & Ohio R.R. and a member of the law firm of Hornblower, Miller, Garrison & Potter. This is the first time a railroad executive has been appointed to the Commission and the selection is a fortunate one. Mr. Potter is admirably qualified for the position, having been connected with successful constructive enterprises and understanding thoroughly the problems of the railroads.

Proposed Amendment to the Transportation Act.

On May 7 some of the leading investment bankers of New York appeared before the Senate Committee on Interstate Commerce at the invitation of its chairman. Following their suggestion, a very helpful amendment to the Transportation Act has been introduced. By its terms the Act requires the repayment of loans made out of the $300,000,000 revolving fund within a five-year limit. Since few, if any, railroads could safely undertake to purchase new equipment on such a short term basis the amendment extends the time for repayment to a maximum of fifteen years.

The language of the Act setting forth the purpose for which the revolving fund may be used, reads as follows:

"For the purpose of enabling carriers by railroad subject to the Interstate Commerce Act properly to serve the public during the transition period immediately following the termination of Federal control, any such carrier may, at any time after the passage of this Act and before the expiration of two years after the termination of Federal control, make application to the Commission for a loan from the United States, setting forth the amount of the loan and the term for which it is desired," etc.

The question having arisen whether the Treasury Department could lawfully loan money to the railroads to take care of maturities, the amendment reads:

"Any such carrier may . . . . make application to the Commission for a loan from the United States to meet its maturing indebtedness, or to provide itself with equipment or other additions and betterments."

However, since the amendment was written the Attorney-General has handed down an opinion that the phraseology of the original Acts permits the use of the revolving fund to meet maturities. The railroad executives thereupon suggested the following allocation of the fund:

(a) Temporary reserve for claims and judgments	$40,000,000
(b) Appropriation for short line railroads	12,000,000
(c) Temporary reserve for maturities	50,000,000
(d) Appropriation to aid in acquisition of equipment	125,000,000
(e) Appropriation for additions and betterments which will permit better movements of cars	73,000,000
Total	$300,000,000

The Interstate Commerce Commission has announced that it will utilize $125,000,000 at once to assist the financing of equipment purchases.

Readjustment of Freight Rates.

On May 24th hearings began before the Interstate Commerce Commission on the needs of the railroads for increased rates. In the year ended Dec. 31, 1919, the railways actually earned $510,000,000 net operating income, but had the present level of costs been in operation throughout the whole of 1919 the year's net would have been only $220,000,000, equivalent to about 2% return on the property investment of the western carriers, about ½ of 1% for the southern roads and about 1/5 of 1% for the eastern roads, or a general average of a little over 1%. Without taking into consideration further wage increases which will doubtless be granted by the Railway Labor Board now in session, the roads will require an increased revenue of more than $1,000,000,000 if they are to receive 6% on their property investment. To meet the deficit under 6% would require increases in the present freight revenues of 30.43% in the eastern district, 30.95% in the southern and 23.9% in the western territory.

In presenting the railways' case Mr. Howard Elliott, Chairman of the Northern Pacific, said: "We appear before you not primarily as railway officials, trying to extract all we can from the American public for the benefit of railway security owners, but rather as quasi-public servants charged with the very great responsibility of so operating and developing the railways that they may render adequate service and the country may continue to grow."

Very little opposition to the necessary rate increase has been manifested by shippers, which is good proof of their realization that they cannot expect good service unless they are prepared to pay good rates. To quote again from Judge Prouty's Chicago address, "The attitude of the public towards our railroads is entirely changed. It has come to be understood that the railroad is a public servant, absolutely dependent upon the will of the public for its existence. It has finally come to be appreciated that this servant cannot render a proper service unless it is properly housed and fed and clothed. The public as a whole is prepared to submit to whatever may be necessary to secure to this servant fair treatment."

The Silver Situation.

The position of the silver market, particularly in view of the recent interpretation of the Pittman Act by the Director of the Mint, is of especial interest to American producers of the metal. The world's silver supply now shows a tendency to increase and much of our export demand is declining. For some time China and India, under the provisions of the Pittman Act, withdrew large quantities of silver from the United States. Mexican production of the metal has recently averaged about $6,000,000 per month. A great deal of melted coin, largely supplied by France, has recently been available in the London market, and has been sufficient to supply the coinage requirements of Great Britain and her colonies and China. Now, if India and China, the largest consumers of silver in the world, should not require any of the metal for a long period and if at the same time the Continent should continue to ship large quantities to London, the

trade price would probably go considerably below $1 per fine ounce.

It will be recalled that the Pittman Act authorized the Treasury to melt silver dollars, and, to this end, in order to supply the needs of Asia, the Treasury actually did melt and sell $271,000,000 of silver. The Pittman Act also authorized the Treasury to purchase silver in the open market at $1 an ounce. In order to replace the great quantity melted, it is estimated that the Government will need to purchase the entire production of all the silver mines of the United States for the next four years. The output last year of this country was 55,285,196 ounces. There is also required about 4,000,000 ounces a year to provide for new coinage. The United States mints also coin silver for Cuba, the Philippines, and some South American countries, and for this purpose only silver produced by our own mines will be used.

It was believed in some quarters that under the terms of the Pittman Act the mint would be required to take all silver offered at $1 an ounce, and in view of the lessened demand for the metal, in China, for example, it was considered not impossible that China, as well as Mexico and other countries, might soon be in a position to sell large quantities here.

The United States Treasury has just announced officially that it will pay $1 per ounce for silver at the Government mints and assay offices; such purchases will be limited to silver produced by mines in this country, and as heretofore the silver production of Canada, Mexico, and other countries will have to be sold in the open market.

In order to make sure that the silver so offered is really American production, it is required that it be produced and reduced in this country. In this connection the Honorable R. T. Baker, Director of the Mint, recently issued the following statement:

The provisions of the Pittman Act are mandatory, and, in accordance with them, the Secretary of the Treasury has given standing orders to the Director of the Mint to buy silver at $1.00 per ounce, 1,000 fine, delivered at the option of the Director of the Mint, at the Assay Office in New York, or the Mints in Philadelphia, Denver and San Francisco, up to the aggregate amount of two hundred seven million ounces. Under the terms of the Act, the silver so purchased must be the product both of mines situated in the United States and of reduction works so located, and clear and unequivocal proof to that effect will be required. Forms for such proof may be obtained at said Assay office and Mints.

The certificates which silver producers are required to sign before presenting the metal to the Treasury must state positively that: "No part of said silver was mined outside of the United States of America or at any time treated by reduction works or refineries located outside of the United States."

Money Market.

In May call money was more abundant than in April, with narrower fluctuations. Funds on renewal were to be had around 7 per cent and even less. Time money continued firm, with tendency to slightly increased rates. Early in the month, loans secured by mixed collateral were at 8 per cent, the rate rising later to 8½ per cent, with 9 per cent on all-industrial collateral. Toward the end of May commercial paper showed a tendency to harden, the best names quoting around 7½ per cent, or an advance of ¼ per cent over the preceding week, and of ½ per cent over the rates earlier in the month, with better demand, especially from out of town banks, toward the end of May. The increase in Federal Reserve rediscount rates caused an advance of ⅛ per cent in rates for open market bills, with transactions principally for out of town account.

The Question of Inflation and Deflation.

The recent action of the Federal Reserve Board in declaring that credits must be reduced, and the raising of the discount rate at all the large reserve centres, has impressed not only the bankers throughout the country but all borrowers with the importance of using credit as conservatively as circumstances will permit.

Inflation of credit in this country is a direct result of the financing of the war, and of the conditions brought about by the conflict. The same situation which we find here is also to be found, in many cases in a more intense degree, in the other principal countries of the world. The stoppage of normal gold shipments in international commerce, the borrowings by governments on an unprecedented scale, the great rise in the cost of all kinds of materials, above all the tremendous exhaustion of economic resources caused by the waste of war itself, and the unproductiveness of millions of men during several years, necessitated the granting of credits for governmental use, and for private business, on a scale which had never before been known. As a result, there is a world-wide inflation of credit; prices have lost their old relation to the gold standard, and the whole world is facing the necessity of bringing about deflation as soon as conditions will permit. There is no doubt about the importance of deflation, but an abrupt contraction of credit, particularly in the ordinary requirements of business, would be harmful rather than beneficial. It is important that inflation, in so far as it springs from excessive speculation in markets or commodities, be restricted. However, it is not feasible to reduce rapidly the amount of credit which industrial and mercantile concerns are in the habit of using at a time when raw materials, wages,

and the costs of all industrial and commercial operations are excessive.

The problem can only be solved by the application of good judgment to the requirements of individual cases. In the present situation of credit, generalization is difficult and unwise. The natural counterpoise to an overextended credit situation is a vastly augmented producton of necessaries, and that is the great need of the time. Wages cannot be increased, the public cannot go on consuming more than ever, the banks cannot continually expand their loans, new capital cannot be found for the creation of fresh enterprises, in the face of diminished output.

Foreign Trade and the Exchanges.

In the month of April, our foreign commerce showed a considerable decline. Exports dropped $135,000,000, and imports $30,000,000, below the totals of March. April exports at $684,000,000 were $135,000,000 below those of the preceding month and nearly 30,000,000 below that of April, 1919, while imports at $495,000,000 were less by $30,000,000 than in March of this year. For the 10-month period ending with April, however, exports at $6,734,000,000 showed an increase of $1,034,000,000 over the corresponding period of last year, while imports at $4,254,000,000 showed an increase of $1,780,000,000 during this same period.

During April the principal export items which showed a decline in volume were breadstuffs and meat and dairy products.

As a result of the Hythe conference between Premiers Lloyd-George and Millerand, the total amount of the German indemnity has been fixed at $22,000,000,000. The establishment of a determinate sum appears to have had a psycological influence, not only on the course of the mark, but also upon the currencies of some of the countries who will be beneficiaries. French francs advanced recently to about 8.10 cents and Belgian francs to about 8.40 cents, and Italian lire also went upward. While it would be a mistake to exaggerate the importance of this factor on the foreign exchanges, it is probable that the recent gains in French and Italian currency are an indication of the substantial improvement in their internal finances. As a result of largely increased taxation, France is assured of receipts which will practically meet her current outlay. The internal revenue returns for April were about sixty per cent above the corresponding receipts for 1914. There are abundant indications that France is rapidly improving her commercial and financial condition.

Although the announcement of the results of Hythe conference had no immediate effect upon sterling quotations, the pound has recently moved forward and a few days ago reached $3.92. Recent offerings of sterling commercial bills in New York have been very moderate in volume, while Canadian exchange has been remarkably quiet for some time.

The table of monthly quotations is as follows:

	Unit Value	Rate in cents Apr. 27	New rate May 25	Change from par	Depreciation
Canada	1.00	.8975	.8950	.1050	10.50
Germany	.2382	.0175	.0255	.2127	89.29
Italy	.1930	.0437	.0535	.1395	72.28
Belgium	.1930	.0627	.0765	.1165	60.36
France	.1930	.0588	.0740	.1190	61.66
England	4.8665	3.82	3.85	1.0165	20.89
Switzerland	.1930	.1761	.1770	.0160	8.29
Holland	.4020	.3625	.3643	.0377	9.38
Denmark	.2680	.1725	.1635	.1045	38.99
Norway	.2680	.1925	.1800	.0880	32.84
Sweden	.2680	.2100	.2100	.0580	21.64
Spain	.1930	.1695	.1670	.0260	13.47
Argentina	.9648	.9762	.9662	*.0014	.15
Japan	.4985	.4850	.5100	*.0115	2.31

*Premium.

The Public Value of Private Investments.

Professor Charles W. Gerstenberg, of New York University, in a recent article has discussed the distribution of wealth and the manner in which private investments are serviceable to the public. An extract from his article is given below:

Let us look at the problem more concretely. Jones has just made $1,000,000. He may (1) invest it in a plant making products for which there is a large demand; (2) invest it in a plant for which there is practically no demand; (3) invest it in a "lodge" in the Adirondacks, a marble castle on Long Island and a superfluity of Crain-Simplex automobiles. The first disposal of the capital will benefit society through giving the public what it wants, and incidentally Jones will make more profits. The second disposal will not aid society, but rather injure society by drawing off from the production of needed goods capital that is buried in the production of unnecessary goods. Jones of course gets no benefit. The third disposal brings in an infinitesimal benefit to society through the beautification of lands (assuming for the sake of argument that the structures are not eye-sores) and Jones will get such psychic income as the possession of these monuments to past achievements may yield. **Practically, then, benefit comes to Jones and society only when profits are invested in profit-making enterprise.** Out of the profits of that enterprise Jones may consume some income in personal living and may invest the rest in additional productive enterprise. **Only that portion that Jones personally consumes really belongs to him.** The rest is used for producing goods that society needs and demands. To the extent then that Jones consumes riotously or invests unwisely he draws capital from productive enterprises and from society, and to that extent he is to be condemned. **But to the extent that he invests in productive enterprise, he will contribute to the progress of society.**

Who better than Jones, if he continues to make profits, should have control of enterprise? He has the incentive to contribute to productive enterprise, stands to lose if he does not, and has demonstrated his ability.

But, it may be objected, cannot Jones make too much profits. Indeed if he does he may become wasteful in his methods. That may be true, but the remedy is not to take away profits arbitrarily, but to reduce them by bringing in competitors who will reduce the active demands of society for Jones's products by increasing the supply of these products. And as business men become more astute this process of concentrating and mobilizing capital where it is most needed will be speeded up, and irrationally large

profits will become proportionately difficult to realize. But take away the profits and immediately you remove the incentive for saving and encourage waste. What more apt and convincing illustration could we have than our present system of appropriating a large part of business profits through the operation of our tax laws? Compare if you will the volume of advertising carried in our popular magazines at present with the amount carried in 1915 or 1916.

Bond Market.

During May the bond market developed two conflicting currents which made it difficult to obtain a clear focus on the trend of investment tendencies. While the railroads and a few of the industrials and public utilities were successful in disposing of substantial amounts of new issues at attractive prices, the general market steadily declined carrying United States Government and municipal bonds to extremely low quotations. In reviewing the month, therefore, a clear picture cannot be obtained for it is impossible to bring the lense into focus.

Following the successful flotation of the Pennsylvania and New York Central issues during April, the month opened with cheerful indications, but the secondary market soon became reactionary and general issues seesawed backward and forward with prices declining each day until new low records were established in many standard issues. The large volume of new railroad financing militated against traders in the market absorbing substantial blocks of the older issues which were freely offered. The dealers as a class have apparently been keeping their shelves clean in order to participate in the seven per cent coupons which have developed a considerable vogue in the present market. The investor today is apparently disregarding yield and is showing a decided preference for new seven per cent issues at par rather than lower coupons at a substantial discount.

Government and Municipal Issues.

The proposed soldiers' bonus bill, which suggests a new issue of government bonds, seemed to be the dominant factor in the government market throughout the month, and in addition large holders of government bonds seemed inclined to throw their holdings in the market regardless of quotations. Violent fluctuations resulted and during the middle of the month the 3½% Liberty bonds sold to a new low record of 89.30, while the Second 4¼s sold to 81.10, the Third 4¼s to 85.80, the Fourth 4¼s to 82 and the Victory 4¾s to 94.70. For the week ending May 22 the total volume of Liberty sales on the New York Stock Exchange was $123,135,100, the largest volume of business being recorded on Wednesday, when $30,300,500 were sold. This total was only exceeded last December when in one day the sales reached $33,368,000. At that period, however, losses were taken for income tax purposes, while today clients are actually selling their bonds as the result of the strained condition of the money market.

The decline in government bonds found its direct reflection in the municipal market, which was extremely dull. Early in the month $380,000 Nashville, Tennessee, 6% serial Bonds were sold on a 5.75% basis. The last previous sale of Nashville bonds was in June 1919, when $1,171,000 serial 5s sold on a 4.80% basis. This represents a decline in less than a year of 9 points on a ten-year bond and over 15 points on a twenty-year bond. In April 1917 the city sold an issue of serial 5s on a 4.74% basis, which is about 25 points above the present market level. As a result of these conditions many municipal offerings were withdrawn and in the following cases no bids were received or the prices were so low that the offers were declined:

$2,000,000	City of Philadelphia School District 4¾% Bonds
4,000,000	Cleveland School District 5½% Bonds
2,722,400	Cincinnati, Ohio 5% Bonds
7,281,000	Pittsburgh, Penn. 1-30 Year 5% Bonds
635,000	Roanoke, Va., 4½% Bonds
500,000	State of Delaware 40-Year 4½% Bonds

Of the Pittsburgh bonds $2,901,000 were later sold on a 5% basis. Other offerings included:

$1,740,000	State of Utah Road 4½% Bonds on a 5.30% basis
1,000,000	State of Oregon 4½% Bonds on a 5¼% basis
650,000	Jamestown, New York, 5¼% and 5½% Bonds on a 5% basis

Two issues of Canadian Province bonds were offered:

$3,000,000	Province of Nova Scotia 6% Bonds on a 7.30% basis
2,000,000	Province of Alberta 6% Bonds on a 7½% basis

Railroad and Corporate Issues.

The encouraging feature of the month, in view of stringent money conditions, was the successful flotation of a large number of railroad issues, including many equipments. Declines of the month brought high-grade rails to an average price about 25 points below the high level of January 1917, while second grade rails reached a level of 24½ points. The new issues, however, continued in demand. The Pennsylvania Railroad Ten-Year 7s which were sold last month at par reached a high quotation of 102 and ruled between this figure and 101⅛. During the month a total of $75,000,000 railroad bonds were reported sold, the more important issues including:

$25,000,000	Pacific Fruit Express 7% Equipment Trust Certificates to yield 7%
15,000,000	Canadian National Railways 7% Equipment Trust Certificates to yield 7.10%
10,000,000	Delaware & Hudson 7% Bonds to yield 7%
7,500,000	Louisville & Nashville 7% Notes to yield 7%

6,000,000 Atlantic Coast Line 7% Notes to yield 7%
4,500,000 Northern Pacific Railway 7% Equipment Trust Certificates to yield 7%

It is estimated that a total of $221,828,000 of railroad issues has been sold since the first of the year.

Public utilities as a class, eliminating traction issues, are showing excellent statements of earnings and investors, realizing that the declines have now reached a level of 37 points below January 1917, have participated in the new offerings, which were in larger volume during May than for some time past. The new issues include:

$10,000,000 Detroit Edison Co. 6% Bonds to yield over 7%
6,000,000 American Light & Traction 6% Notes to yield 7¼%
5,000,000 Southern California Edison Co. 6% Bonds to yield 7%
4,000,000 Abitibi Power & Paper Co. 6% Bonds to yield about 6.70%
2,000,000 Monongahela Valley Traction 7% Notes to yield over 8½%
2,000,000 Northern Ohio Traction & Light 7% Bonds to yield 7.85%
2,200,000 American Gas Company of Philadelphia 7% Notes to yield 8%
1,500,000 Eastern Texas Electric Co. 7% Notes to yield about 8%
1,000,000 Los Angeles Gas & Electric 7% Bonds to yield 7½%
600,000 Monongahela Valley Traction Co. 7% Bonds to yield 8¼%

The combined average of 40 active corporate issues as reported by the Wall Street Journal on May 27 was 72.42 compared with 74.09 on April 27 and 85.84 on May 27, 1919.

Discount Rates.

Rates on paper discounted for member banks in effect May 25, 1920:

Federal Reserve Banks	Discounted bills maturing within 90 days (including memberbanks' 15-day collateral notes) secured by: Treasury certificates of indebtedness: 5¼%	All other	Liberty bonds and Victory notes	Bankers acceptances maturing within 3 months	Trade acceptances maturing within 90 days	Discounted bills secured otherwise than by Government war obligations, also unsecured, maturing within: 90 days (including member banks' 15-day collateral notes)	91 to 180 days (agricultural and live-stock paper)
Boston	5	5	5½	5	6	6	6
New York	5	5	5½	5	6	6	6
Philadelphia	5¼	*5	5½	5½	6	6	6
Cleveland	5¼	*5	5¾	5½	5¾	6	6
Richmond	5¼	5	5½	5	6	6	6
Atlanta	5¼	*5	5½	5½	6	6	6
Chicago	5¼	*5	6	5½	6	6	6
St. Louis	5¼	*5	5½	5½	6	6	6
Minneapolis	5¼	5	6	5	5½	6	6
Kansas City	5	5	5½	5½	6	6	6
Dallas	5	5	5½	5½	6	6	6
San Francisco	5¼	5¼	5¾	5½	6	6	6

NOTE 1.—Rate on paper secured by War Finance Corporation bonds 1 per cent higher than rate on commercial paper shown in column 6.

NOTE 2.—Rates shown for St. Louis, Kansas City and Dallas are normal rates, applying to discounts not in excess of basic lines fixed for each member bank by the Federal Reserve Bank. Rates on discounts in excess of the basic lines are subject to ½ per cent progressive increase for each 25 per cent which the amount of accommodation extended exceeds the basic line.

*5½ per cent on paper secured by Treasury certificates bearing interest at 5½ per cent.

THE NATIONAL CITY BANK OF NEW YORK

1920

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, JULY, 1920.

General Business Conditions.

THE reactionary tendencies which developed in May in certain lines of trade and industry have continued in June. They are most marked in goods for personal consumption and particularly in textiles and shoes. The unseasonable weather which prevailed throughout the spring months no doubt was an important factor in a disappointing retail trade in clothing and dress goods, but the restriction of banking accommodations, a disposition on the part of the public to make a stand against further price advances, and unsettled conditions in foreign markets, were among other contributing influences. Retailers with heavy stocks became uneasy as the season advanced, reduction sales were generally held and merchants developed a lack of confidence in the future of prices which led to the cancellation of orders for fall delivery. Demoralization began in the silk trade in the early spring, and the manner in which prices in that line slumped, and the disastrous effects to the industry, particularly in Japan, afforded an object lesson which undoubtedly made an impression throughout the textile trades.

Markets Sensitive.

The markets have been sensitive because everybody has known that prices were abnormally high and that it was only a question of time when a decline must set in. The whole structure of wages and prices has been created by temporary and extraordinary conditions, and practical people have realized that they must be prepared to shift their position as conditions change. Once confidence in the future of prices is shaken buying naturally stops and everybody looks for a safe shelter until conditions clear up. Such a situation developed in the early months of 1919, but the theory that prices were about to find a permanently lower level at that time proved to be a false one. The demand for war supplies fell off, but a great backed-up demand from the regular trades promptly absorbed all the labor released from the war industries and from the armies and even forced prices to higher levels than were reached during the war.

The present movement is not so broad as that which started in 1919. The trade in textiles is demoralized; orders for fall delivery, particularly of woolens and worsteds, and to an important extent in knit goods, underwear and other cotton goods, have been cancelled, and the production of these goods is being curtailed. At present prices of raw materials and present wages manufacturers will not make up goods except upon orders, so that as orders are worked up or cancelled they shut down their works and lay off their employes. This is an inevitable result of the high level of prices. Nobody wants to be holding the goods when prices fall. From the retailer all the way up the line to the manufacturer and from him back to the producer of raw materials, there is the same natural eagerness to avoid accumulations and commitments until a definite trend develops.

The shoe trade is in a similar state of unsettlement, a heavy fall in the prices of hides and leather having taken place, which dealers have been quick to interpret as foreshadowing lower prices for shoes, and they have been withholding and in some instances cancelling orders to such an extent that a considerable degree of unemployment has developed at the shoe-making centers. Leading manufacturers at St. Louis have announced reductions of 50 cents to $2 per pair in wholesale prices.

On the other hand, the iron and steel industry is moving along with no troubles but those arising from inadequate transportation service, which are serious, and that appears to be the general situation. The most common complaint over the country in business circles is about the insufficiency of railroad service.

The Future of Prices.

The prevailing opinion about prices is that an effective stop has been put to the upward movement, and there is a unanimous sentiment of relief over the fact. The endless round of rising wages and prices could not go on indefinitely. The sooner the rise was stopped the sooner might stable conditions be reached. The present state of suspension and uncertainty in the textiles and shoes will last until these trades get their bearings and determine their relation to the general situation. The curtailment of production is unfortunate, for the full product of these industries probably will be wanted. The cancellations, pre-

sumably, signify an effort to get the same goods at a lower price rather than that the goods will not be wanted at all. In other words the cancellations are incidental to an expected readjustment of prices, upon a lower level. As yet the chief characteristic of the disturbed markets is a paralysis of activity rather than a general fall of prices, although prices undoubtedly have been broken.

Possibly the great distribution of clothing which took place last year, and which was incidental to the demobilization of the military forces, has put the country in position to do with smaller purchases of clothing this year. At any rate there are strong indications that consumers will buy less of clothing and shoes at the high prices that have been prevailing than at lower prices, and that these trades will not have full employment unless costs are reduced. They may rest awhile and ponder over this fact.

Stabilizing Influences.

However, the manufacturers of woolen and cotton goods will not operate their machinery at a loss, and it is not to be expected that a very radical reduction of prices can be had in these industries without corresponding reductions in other lines, which will effect a general lowering of living and manufacturing costs. As yet, there is no general decline of foodstuffs, coal is established on a higher basis than heretofore, freight charges are about to be advanced, taxes are moving upwards as the salaries of public employes are brought into line with current wages, interest rates are rising, building materials, machinery and factory equipment are higher than a year ago, and as yet wage controversies are, generally, over demands for increases rather than over demands for reductions.

Even in the midst of the disturbance in the textile industry an advance of 15 per cent in mill wages went into effect June 1 which is equivalent to 50 per cent on pre-war wages.

The general world situation is not favorable either to a rapid decline of prices or to prolonged industrial depression. There is too much work needing to be done. The argument from former reactions from high prices and succeeding periods of industrial depression is not good, for the reason that such reactions in the past have followed periods of construction and enlargement of industrial capacity which had run their course. Present high prices are not the result of a period of construction and investment. The $25,000,000,000 of new government indebtedness which is glutting the banks and investment markets represents in only a very small part new industrial facilities. On the contrary this indebtedness represents capital which should have gone into our railroads, house-building and other construction and development work.

Moderate Price Reductions Indicated.

The rising prices of the last year have indicated scarcity of goods and services of all kinds. A check upon higher prices is wholesome and desirable, but does not signify that the country has run a full normal course of industrial expansion. On the contrary it is apparent the country has scarcely begun to make good the deficit in capital improvements which would have been made but for the war. It has scarcely begun to make good the shortage of houses, public improvements and railroad equipment. The exports of May reached a total surpassed in not more than three or four months of our history, and there is reason to believe that the unsatisfied needs of other countries correspond to our own.

Until this loss of normal capital accumulation and of necessary construction has been made good, it seems probable that while excessive price advances will be followed by reactions, every material decline in construction costs will bring out new demands for labor and materials, with a renewal of general business activity. Of course employment and trade are mutually dependent.

The crops are more promising than earlier in the season, which means that the buying power of the agricultural population is likely to be fairly well maintained, and this is the great steadying factor in the domestic trade situation. If the crops of Europe should be fortunately so large that our exports of foodstuffs would decline, the way would be cleared for a general lowering of industrial costs and of prices the world over, and a return to conditions more nearly normal than have prevailed since the outbreak of the war. On the other hand, if our exports of farm products continue at the rate of last year, it seems improbable that any considerable reduction of wages or prices will occur in world markets or in this country. The situation seems to make a general state of industrial depression improbable, but favors a gradual readjustment of supply and demand with a downward tendency of prices.

World Conditions.

The textile centers of England are reporting a falling off of orders from all parts of the world. Trade with India and China has been hurt by the decline of exchange. The Oldham Chronicle of the second week in June reported on the situation as follows: "Business has been very dull. * * * Spinners are still contemplating the steady reduction of their order books. It is doubtful whether the majority are selling one week's production in four."

From Switzerland comes the following from a prominent representative of the textile industry:

"As far as business conditions are concerned there is at present stagnation in the selling line in all countries. The whole world has apparently issued an order of the day that at the present exorbitant prices

nothing more is to be purchased; it remains to be seen if this rule can be abided by as it must not be overlooked that the rate of production is considerably less than before the war, owing to the reduced working hours, and that on all sides wages are again showing a tendency to advance. In any case it will be advisable not to rely too confidently on a reduction in prices. A reversal of present views on the position might come about all too quickly. To-day it looks as if the next few months would be very quiet, on the other hand it is to be anticipated that after this lengthy stoppage somewhat more activity will be manifested towards the late summer months."

The shoe and leather trades are also experiencing depression. The London Economist says:

The demand for foreign hides remains quiet, and tanners, in view of a falling leather market, are not buying, many, in fact, having seriously reduced their input in order to steady the position. Shoe manufacturers are very short of orders, except makers of high-grade goods, and many of them are now only working part time, as with the high cost of labor there is no disposition to make for stock on a falling market.

Wool and Hides.

The wool market is adversely affected by the fact that a free market will exist in Australia at the close of June, and that there is a heavy carry-over of government stocks there as well as ample stocks in the United States. The Australian premier, Mr. Hughes, has been endeavoring to persuade the British administration to favor the market by withholding its accumulations until this year's crop is sold, but this policy is opposed by the trade generally and has not been adopted. Recent sales in London, about the 1st of June, showed a decline of about 20 per cent from the preceding auction, and in consequence offerings for the present will be reduced. The British government may be expected to adopt a policy designed to protect the market against an extreme decline.

The unfavorable exchange conditions are a serious obstacle to wool importations by the countries on the continent of Europe, Germany, which should be a large purchaser, taking practically nothing.

In this country the markets are so unsettled that very little wool is changing hands, but the Journal of Commerce says that the finer grades are off 20 to 30 per cent from their high level and carpet wools 60 to 75 per cent.

Hides and leather have had a heavy decline in the last three months. Prices advanced during the war on heavy exports of leather, but declined about the time of the armistice, and then on a resumption of heavy exports in the spring of 1919 soared higher than ever before. Since February last the market has been weak, best calf skins declining from $9.00 to about $2.50. Horse hides were as high as $22 in 1919 and are now as low as $8. The general run of cattle and sheep skins are down 40 to 50 per cent, and the decline upon goat skins is about the same.

General Trade Well Maintained.

Notwithstanding the stagnation which exists in a few lines general trade is well maintained, as shown by the fact that bank clearings in June have been running ahead of those of a year ago. The May pig iron output, notwithstanding the transportation troubles, was at the rate of 36,000,000 tons per year, and the steel ingot output at the rate of 42,000,000 tons per year.

Building operations, however, show signs of curtailment, owing to further advances in construction costs. Brick-makers report many cancellations, but business in excess of shipping facilities.

Agricultural Conditions.

The general crop situation has improved steadily and is very encouraging. The harvest of small grain is completed in Texas and Oklahoma and well advanced in Kansas, with results considerably above the early estimates. The winter wheat crop promises to be above 500,000,000 bushels, and spring wheat in Montana, the Dakotas and Minnesota is doing well. The acreage of both classes of wheat is 15 or 20 per cent below that of last year, but if disaster does not happen to the crop in harvest there is likely to be as much grain, including the carry-over, as there was last year. The lost acreage in wheat is largely in corn, which has a good stand, plenty of moisture at this time and is well advanced. There is more than the usual amount of old grain in farmers' hands, so much in fact that the problem of where to put the new crop is troubling the rural communities out West. The advice of authorities is to stack the small grain and postpone threshing until the granaries are cleared. Threshing has begun in the Southwest and the first reports are of fine quality and good yield.

The First National Bank of Kansas City, in response to an inquiry, had on June 26 replies from 92 Kansas towns showing the number of cars ordered for old wheat in those towns and not yet furnished, 2,358; storage, capacity in those towns 5,532,500 bushels; wheat in storage, 1,744,587 bushels; estimate of farmers' holdings, 3,269,600 bushels; condition of new wheat crop, 17 "fair," 55 "good" and 20 "excellent."

The hay crop is made, and is a large one, and of great value for feeding purposes. Butter production is at a good rate now, but was late in beginning, so that on June 1 the amount which had gone into storage was only about one-half that of a year ago. However, it is gaining now, and with a favorable season the storage may be as large as last year, although the average price of the stock is higher thus far. The same is true of the storage of eggs. By the way, who knows now what a dealer can af-

ford to pay for butter and eggs for next winter's trade? It would be well for people who are critical of the "profiteers" to try guessing on their own account. The cold storage warehouses will handle goods for anybody.

Live Stock.

Cattle and hogs are coming to market in lighter supply, and prices have recovered notably, particularly for cattle, since early in May. At that time sellers of fine beeves were making heavy losses, but they are feeling better, with prices from $2 to $4 per hundred-weight higher. Hogs are up perhaps $1 per hundred-weight and the lamb market is also more satisfactory to producers. Last winter was a disastrous one on the Western ranges, particularly in Montana and Wyoming, where losses in cattle ran from 10 to 25 per cent and in sheep from 10 to 12 per cent. Feed was scarce and very dear, the winter long and larger amounts of feed had to be shipped in from states farther east. It is said to have cost an average of $30 per head to winter cattle in Montana and Wyoming, and $5 or $6 per head in the case of sheep. Both states have been seriousy denuded of their herds and it will take several good years to restore them.

The losses which cattle feeders have experienced have had the effect of reducing the number of feeders for the coming season. The distribution for feeding is lighter than usual, which foreshadows a shortage of finished beeves next winter. The outlook for hogs likewise is for a smaller crop. This general situation is the result of markets for live stock out of line with prices for corn.

Wool.

The situation which has developed in wool inflicts further hardships upon the stock growers of the West. The wool market collapsed almost in a day from the high range of prices which have been ruling for the last year to a state in which bids are almost unobtainable. The market is in such a chaotic condition that practically no business is being transacted. Owing to the heavy expenditures which the ranchmen have been under, not only in producing the present crop of wool but in wintering their herds, they are obliged to realize on their clip in some manner, and a meeting with the Federal Reserve Board has been held to consider what means might be devised for procuring credit for them. The conclusion arrived at was to attempt relief by means of 90 days' acceptances, in hopes that the wool market will recover stability in that time In order, however, to dispose of acceptances on the market it will be necessary that the wool be pledged and, of course, released from any liens already existing against it. The situation is a trying one, in view of the unsettled condition of world markets, and it is of general concern because it affects a great essential industry.

The cotton crop after suffering a bad start and showing last month the lowest condition known at that stage, has made a remarkable recovery in June, and now bids fair to make nearly as large a yield as last year, or approximately 11,000,000 bales.

Foreign Crops.

The crops of Europe doubtless will be larger than in any year since the war began, but until Russia resumes her old position as an exporter of foodstuffs and raw materials Western Europe will necessarily depend largely upon the United States and Canada. The crop outlook for the latter is on a par with that of the United States.

Argentina seems to be in the position of having sold too much of its wheat crop. The last crops were large and exports since January 1 have been the largest in the history of the country. The tonnage in the first three months of this year of wheat, flour, corn, oats and linseed compare with other years as follows:

1920	2,972,903
1919	711,829
1918	799,503
1917	1,044,237
1916	1,569,323
1915	1,903,280

The Argentine government is now attempting to buy back a part of the wheat crop, believing that not enough has been reserved to supply the domestic needs, and has levied an export tax on wheat and flour which is equivalent to about 46 cents per bushel for wheat and $1.89 per barrel for flour.

Sugar.

The world's crop of sugar last year was more than 1,000,000 tons short of that of the previous year, and the latter was about 2,000,000 tons short of the last crop before the war. The average sugar exports of the countries of Europe for the three years, 1910-12, as given by the London Economist, was as follows: Germany, 674,000 tons; Austro-Hungary, 660,000 tons; Russia, 327,000 tons; France, 165,000 tons; Belgium, 147,000 tons; Holland, 126,000 tons; a total of over 2,000,000 tons. Of these only Holland and Czecho-Slovakia have exported any sugar since the war.

The situation in the United States is becoming easier as the result of imports from all quarters of the world. About 21,000 tons have been purchased in Argentina, which will come along later in the season, and will be distributed under arrangements effected by the government to the canning and preserving industries, which are said to be now assured of a supply. The expectations are for larger pro-

duction in all sugar-producing countries this year, and for increasing supplies until prices return to normal figures.

Financial Conditions.

Now that the reserve banks have recovered their equilibrium after the tax-payments of June 15, it is possible to take account of the trend of their operations during June. The amount of bills secured by government obligations had been reduced on June 25, from $1,447,962,000 on May 28 to $1,277,980,000, but other bills, including open market purchases, have risen from $1,490,019,000 to $1,552,999,000. The effect of the payment of about $720,000,000 in taxes is perhaps not yet fully evident. The total earning assets of the twelve reserve banks on June 25 was $3,183,275,000, against $3,244,425,000 on May 28, $3,235,832,000 on April 30 and $2,354,167,000 a year ago. This increase of nearly $800,000,000 since the last war loan was closed, and over a period during which production was not increasing, tells the story of inflation, but not the whole story, for it would be necessary to have the loans of the individual banks to show that.

Undoubtedly the inability of the railroads to move freight freely is the chief factor in the failure to date of the effort to reduce loans. The story is the same in every part of the country. The rural sections cannot deliver farm products, the mining districts cannot deliver coal and the factories cannot deliver their products. The exchanges are hampered and more credit is required. There is no immediate prospect of relief. It looks as though a system of priorities, or rationing, for railway service as well as for bank credit, would have to be adopted, to enable the most essential business to be done.

Business Overdone.

The plain truth is that the wants of the country, released from the restraints of the war time, are in excess of the industrial capacity of the country, and the demand for credit is greater than required to operate the industries and handle the exchanges in a normal manner. It is a competitive demand, a demand which represents the efforts of producers and dealers to get labor, materials and goods away from each other, and under such conditions any amount of credit that may be granted will be largely expended in driving up wages and prices.

The transportation problem will have to be worked out by applying capital to the improvement of facilities, and meanwhile it is evident that what the country needs is not more credit but more capital. People are prone to confuse the powers of credit and capital, to think that the former can be substituted for the latter to a greater degree than is possible. Credit is purchasing power; you can buy things with credit but you cannot make things with it. Credit is an intangible thing, while capital is always something tangible, as lands, buildings, machinery, materials. Credit gives mobility to capital, helps to make capital available in different ways and places, but when it comes to actual production nothing can be done without labor and capital. It follows, therefore, that if the use of credit as purchasing power is increased faster than the supply of labor and capital is increased, wages and prices will be forced upward.

We have had that during the past year, and the movement has been carried to the point where a reaction results from natural causes. Some lines of industry have outrun others, the situation is out of balance, the natural reciprocity is lost, the industries are not mutually supporting as they must be for a state of permanent prosperity. There must be a readjustment and in view of the strained condition of credit it must be at a lower level of values. There can be no relief for the credit situation except at a lower level of values, where less credit will be required to handle the business of the country. Of course just as much business can be done, just as many goods made and distributed, at one level of values as another. Nothing has been gained by the great expansion of bank credit and rise of prices which has taken place during the past year. The situation is more difficult to deal with now than it was then, and every increase in the volume of bank credit and advance in the price level will make it still more difficult, because the ground will have to be retraced.

The Money Market.

The money market quotably has been without much change throughout the month although the tax-payments and preparations for July disbursements have put an additional strain upon it, and call money has been in relatively smaller supply and ranged somewhat higher. This situation is expected to improve as funds are released following July 1st, and there should be a situation of comparative ease until the fall demands begin to make themselves felt. Time money is in scant supply at 8 to 9 per cent, commercial paper 8 per cent.

The Federal Reserve Banks of New York, Chicago and Minneapolis on June 1st raised the rates, upon rediscounted paper and 15-day collateral loans to 7 per cent, although in New York State the maximum rate of interest upon time loans to individuals is 6 per cent. Other reserve banks probably have been deterred from similar advances by like restrictions upon the charges of member banks.

In New York State the usury law does not apply to call loans of over $5,000 or loans to

corporations. Presumably the legislators were not interested in extending their paternal care over such borrowers, but the effect of the usury law in times like this, when borrowers are more interested in getting accommodations than they are in the rate, is to give an advantage to the very class as to whom the legislators were indifferent. When there are not enough funds to go around, naturally, other things being equal, the borrowers who pay the best rate are likely to have a preference, which furnishes another illustration of the difficulty which legislators usually find in trying to make water flow up hill. Fortunately, the relations of individual customers to their bankers are not determined solely by the rate of interest upon their borrowings, and valued customers are usually accorded the accommodations to which they are entitled.

The cessation of gold exports has been a favorable development, and the probability that considerable gold will come between now and October from London tends to strengthen the position of the money market. These receipts will replenish the supply and enable the reserve banks to meet future export demands, provided they are not forthwith used as the basis of additional credit. It is clearly the intention of the Federal Reserve authorities that they shall not be so used. The public will do well not to look for any relaxation of present credit restrictions until after a very considerable reduction in the present volume of credit has been accomplished, which is not likely to occur this year.

Foreign Trade and The Exchanges.

The foreign trade of the United States, according to statistics of the Department of Commerce, shows, for the month of May, exports of $739,000,000 against $685,000,000 in April of this year, and $604,000,000 in May of last year. For the eleven months ended May, 1920, exports were $7,474,000,000, against $6,304,000,000 in 1919.

Imports in May totaled $431,000,000, against $496,000,000 in April, and $329,000,000 in May of last year. For the eleven months ending in May of this year, imports were $4,686,000,000, against $2,803,000,000 in the same period of last year.

These figures do not include movements of the precious metals. The latter have been light. The Canadian government has sent $8,000,000 to New York to meet its own payments here, a few millions of Transvaal gold has come here from London, and the Argentine government has released an amount of which mention is made elsewhere. On balance there has been a gain of gold since the movement to Argentine ceased, but since January 1 exports have aggregated $190,000,000 and imports $97,600,000.

The balance of over $300,000,000 in May in our favor on merchandise account was a surprise. It is reassuring to have exports keep up as they do, and to have the European exchanges show the strength they do, but nobody pretends to understand all this phenomena. Of course the larger volume of exports from Europe, not only to the United States but to other parts of the world, is an important factor.

Exchange Rates.

The pound sterling, Paris, Belgian and Swiss franc and lire have all made gains during the past month. The mark has been stronger, for reasons not clear, but probably under speculative buying induced by reports of a readjustment of the indemnity more favorable to Germany. The immediate food crisis in Germany must be passing with the maturity of this season's crops and it is to be hoped that before the necessity for further importations comes Germany may have something to export in payment. The crops, however, are not back to normal. The soil needs fertilizers not produced in Germany and which it has not been able to buy this year, although it would have helped the food situation everywhere to have helped Germany to a good crop.

The industrial recovery of Germany waits on help from outside to enable the industries to buy the materials they need, and meantime the printing presses are turning out more marks daily.

The table of monthly quotations is as follows:

	Unit Value	Rate in cents May 25	New rate June 25	Change from par	Depreciation
Canada	1.00	.8950	.8800	.1200	12.00
Germany	.2382	.0255	.0270	.2112	88.66
Italy	.1930	.0535	.0616	.1314	68.08
Belgium	.1930	.0765	.0870	.1060	54.92
France	.1930	.0740	.0829	.1101	57.05
England	4.8665	3.85	3.9675	.8990	18.47
Switzerland...	.1930	.1770	.1825	.0105	5.44
Holland	.4020	.3643	.3562	.0458	11.39
Denmark	.2680	.1635	.1645	.1035	38.62
Norway	.2680	.1800	.1678	.1002	37.39
Sweden	.2680	.2100	.2210	.0470	17.54
Spain	.1930	.1670	.1670	.0260	13.47
Argentina	.9648	.9662	.9537	.0111	1.15
Japan	.4985	.5100	.5150	.0165	*3.31

*Premium.

Sterling began a distinct upward movement the latter part of May, early in June reached $3.96, and later touched $4. The Chancellor of the Exchequer has announced that the credits accumulated by Great Britain are sufficient to pay off one-half of the British share of the Anglo-French external loan, maturing in October. Undoubtedly, an important factor in the upward movement of the pound sterling is the economic and financial recovery of Great Britain, which in view of the stupendous difficulties encountered is entitled to recognition.

British Finances.

British Treasury revenues are now exceeding ordinary expenditures and the government is planning to reduce its indebtedness by something more than $1,000,000,000 in the current fiscal year.

Notwithstanding the shipment of approximately $50,000,000 of gold to the United States in recent months on government account, the gold reserves of the Bank of England on June 24th amounted to $585,000,000, which compares with about $435,000,000 a year ago, about $315,000,000 two years ago, and $175,000,000 before the war. Of course the liabilities have grown since 1914 in greater proportion than the reserves, but the Bank has not lost ground since the war ended.

Approximately $20,000,000 of gold was received about the first of last month from Hong Kong, on British government account. This is understood to have been some of the Kolchak gold, originally pledged to secure a British loan.

Further shipments from London are expected in the near future, and apparently large amounts must be forwarded between now and October 15th to carry out the announced purpose of paying the $500,000,000 Anglo-French loan in full.

British Banking Policy.

In this connection it may be added that much is said in the United States, usually by way of criticism upon banking policy here, of the liberality and courage shown by British bankers in financing trade and enterprise. The same kind of comment is heard in England upon banking policy in the United States and elsewhere, by the same class of critics. Before the war it was common in England to extol the liberality and enterprise of German bankers at the expense of British bankers.

As a matter of fact British bankers are following the same general policy pursued by bankers in the United States, in efforts to prevent further inflation. The Bank of England led the Reserve banks of the United States in adopting a 6 per cent. rate, again in adopting a 7 per cent. rate, and if reports from excellent sources are correct it is now contemplating an 8 per cent rate. The financial authorities of England have held steadfastly to the purpose of restricting credit, reducing indebtedness and building up reserves as fast as consistent with taking good care of their maturing obligations, as in the case of the Anglo-French loan. It goes without saying that the British and French governments would much prefer to renew their joint loan, but they have recognized the inadvisability of attempting to do so in the present state of this investment market.

One of the examples of resourcefulness has been the act of the British government in lending Argentina $50,000,000 in the United States with which to pay the latter's obligations aggregating that sum, which matured in this market on May 15th last. In doing this the British government was anticipating a payment of its own to Argentina which falls due in January, 1921, on a food credit granted in 1918.

The loans and deposits of the Bank of England have declined in recent months and the policy of keeping the uncovered issue of exchequer notes under the limit fixed, £320,600,000, has been adhered to. On June 9 the percentage of reserve to exchequer notes in circulation was 10.9 against 8.3 on June 25, 1919, and 9.1 on December 31, 1919.

South American Exchange.

Trade with the countries of South America is running in favor of the United States to such an extent that the latter is recovering some of the gold previously shipped to that quarter. Exchange on the United States is at a sufficient premium in Buenos Aires to justify gold exports from there, but the Argentine Government is meeting the demand by receiving currency at the conversion office in exchange for gold which it has had on deposit with the Federal Reserve Bank of New York. Currency had been issued against this gold in Argentina, the same as though the metal was stored there, and as this currency is presented for redemption gold is released here, which serves the convenience of all parties and has saved the cost of transporting gold both ways. This is a practical illustration of the services of a Pan American gold fund, which has been under consideration by the Pan American Finance Commission.

This turn of affairs also serves as a timely reminder of the mistake which might have been made by hastily placing an embargo upon the exportation of gold a few months ago. About $17,000,000 of Argentine gold has been released in New York, which is equivalent to a return of so much of our exportations made early in the year.

The South American exchanges are likely to continue in our favor until fall, when the next crop of Argentine wool will be ready to move.

The Asia Exchanges.

Trade relations between Asia and the rest of the world have changed decidedly since February last, when the United States Government was melting silver dollars to satisfy the demand for bullion for export to China and the British Government decreed that henceforth ten rupees should be the equivalent of a sovereign. Apparently the trade balance has shifted; anyhow silver is no longer wanted for China and the British Council for India has been selling securities from the gold standard reserves in London to meet drafts on London sold in India, a proceeding which involves a considerable loss to the fund at present security prices.

The embargo maintained since the beginning of the war upon private importations of gold and silver into India has been raised, but no metal is going there from the United States, although importations from India doubtless exceed our exportations to that country. We are making settlement through London, taking advantage of our ability to buy London exchange at a discount and convert it into rupee drafts.

A curious feature of the situation is that notwithstanding the fall of Indian exchange and the sale of gold reserve securities to meet drafts from India on London, a considerable movement

of gold from London to India continues. It seems to be in response to the demand for gold outside of financial uses, a demand for gold as a commodity rather than as a debt-paying medium.

The Situation in Japan.

The yen has advanced to a premium in this market, notwithstanding the fact that the trade balance is against Japan, and several million dollars have gone out by recent steamers. This seems to represent a withdrawal of balances, probably for the purpose of strengthening reserves. There has been recurrence of panicky conditions, although the exchanges have been reopened and it has been thought that the worst was over. At the end of May raw silk was at the lowest price registered since before the war.

For the month of May and five months of this year, the imports and exports of Japan have been as follows:

	May	Five Months
Imports—yen	293,846,000	1,394,804,000
Exports—yen	191,583,000	954,581,000
Excess Imports	102,263,000	440,223,000

We are not likely to lose much gold to Japan while trade continues in this state, but trade is likely to decline and it remains to be seen which side will fall most rapidly.

The Price of Silver.

The falling off in the demand for silver for Asia has resulted in a peculiar situation in the silver market in this country. Under the Pittman act the Secretary of the Treasury is required to replace the melted silver dollars by the purchase and coinage of bullion, the product of American mines and smelters, when such bullion can be obtained at $1.00 per ounce. Accordingly the Director of the Mint has been given a standing order to buy 207,000,000 ounces of the American product, and purchases have begun. The silver must be identified as the product of American mines and American smelters, but as smelters in their operations find it necessary to mix the foreign and domestic ores, they are permitted to deliver as American product an amount equivalent to their purchases from American mines.

Under ordinary conditions, since the United States is one of the chief sources of silver for world consumption, the absorption of its entire product for domestic consumption at $1.00 per ounce might be expected to raise the price in all markets at least to that level, but to the surprise of everybody this has not been the effect in the present instance. Calculations have been upset by the supply of melted silver coin arriving in London from the continent of Europe, which is reported as amounting approximately to 1,000,000 ounces per week. Nobody knows how long this stream will last, but the total silver coinage of Europe is large, and it is all out of use as money.

Formerly Europe was a steady buyer of new silver for coinage purposes, but now it has not only ceased to be a buyer but become seller of quantities sufficient to take the place of normal American exports.

As a result of this development, in connection with the decline of the demand for Asia, there are two prices for silver bullion in the United States, to wit: the price paid by the United States Treasury for the product of American mines and smelters, and the market price of foreign silver for commercial use. The former is $1.00 per ounce and the latter fluctuates from day to day with supply and demands being now about 92 cents.

As in other instances of abnormal prices there is a likelihood that silver producers will suffer in the long run from the recent spurt of prosperity. It may be a long time before the consumption of silver for coinage purposes gets back to what it was before the war. The British government is reducing the contents of its silver coin from eleven-twelfths to five-tenths. Moreover, as prices fall the amount of coins required in circulation will be less than it has been.

The Railroad Situation.

The inadequacy of railroad service continues to be the most serious factor in both the industrial and financial situations, although it must not be understood that the movement of freight is not heavy. For the first three months of this year the tonnage handled was 24.7 per cent. greater than in the first three months of 1919, and 29 per cent. greater for the month of March. Compared with the corresponding months of 1917, tonnage was greater by 7.6 per cent. in January, 1920, by 8 per cent. in February and by 8.6 per cent. in March.

These figures are for months before the railway strikes began. Tonnage figures are not available for later months, but for April the gross earnings of the roads were greater than in April of last year, amounting to $385,680,000, against $373,883,000 in April, 1919.

The fact that earnings were greater in April than a year ago is surprising in view of the confusion occasioned by the strike. The congestion at the terminals has been very great and the efficiency of car-service apparently very low. Sporadic strikes have been occurring at scattered points in a manner which has suggested concerted action for the purpose of influencing the wage board, which has been deliberating upon the applications for increased pay. Recently, outbreaks at Philadelphia and Baltimore have compelled the establishment of embargoes against consignments to those important ports.

There could be no more striking example of injury done to the entire wage-earning population by the inconsiderate action of a part of it than is afforded by these strikes. Thousands of wage-earners have lost millions in wages by the shutdowns of industrial establishments made neces-

sary by these strikes, while the cost of food supplies and other goods have increased. The railway men justify their action by complaining of the slow procedure of the Wage Board, but it may be noted that the Interstate Commerce Commission is quite as deliberate in dealing with the applications of the railway companies for increased rates. In fact, the rates have been insufficient for years.

The railway employes have fared very well on the whole as compared with wage-earners in other industries, regularity of employment and rates of pay considered, and very well compared with the treatment accorded railway shareholders. Public supervisory bodies are expected to have due regard for their responsibilities and to act with deliberation. Such a body as the Wage Board, composed as it is of representatives of the employes, employing companies and the public, inevitably requires time to reach an agreement, and probably will have to compromise differences.

The Bond Market.

The bond market during June did not display any outstanding characteristics, but in-investment houses engaged in the distribution of general issues have reported a fair business. There were a limited number of new issues which were taken by the smaller investors, and the best indication of general conditions throughout the country may be obtained from a report of one of the larger investment houses whose average sale on a $10,000,000 industrial was less than $2,500. This situation has naturally led to the question, "What is the large investor doing with his money?" The answer may best be summarized by a letter which was recently received from a man of substantial income whose investments prior to the war period had been ranging from $300,000 to $500,000 per year. In this letter he stated that the Government was being operated on the funds which he had formerly been accustomed to investing in high-grade securities. Thus the tax situation has eliminated the large buyer and the credit situation has largely eliminated the banks from the markets, with the result that investment houses are combing every section of the country, including the small towns, and new issues are finding permanent places in small pieces in the hands of new investors. Investment dealers are looking forward to that day when a lowering of taxes will allow the large investor to accumulate his usual investment funds and when the easing in the credit situation will bring the banks into the investment market again. When this time arrives we can confidently look for advancing prices, for the army of new investors will undoubtedly continue their thrift habits which have been fostered by the investment houses as a matter of necessity during the past months. There is little likelihood of the demands for capital easing to any marked degree for some period; nevertheless, sound issues should continue to be absorbed in increasing volume.

Government and Municipal Issues.

Early in the month the Federal Reserve Bank increased its rediscount rates, and Liberty Bonds declined 2¼ points, while Victory Bonds declined ¾ of a point. On June 10 the Secretary of the Treasury announced $400,000,000 Treasury Certificates in two series, to bear 5¾%, for the January 3, 1921 maturity, and 6% for the June 15, 1921 maturity. This announcement resulted in only a slight decline in government securities, and the successful sale of the certificates resulted in a firmer tone for all government issues. Investment houses specializing in Liberty issues are reporting a wide demand from all sections of the country, particularly for the small denominations. This indicates that investors are taking advantage of the present opportunities to purchase government issues which yield from 5% to 6.35%.

The new level of municipal prices seems to have become more stabilized during the past month, and a recent survey shows that about $18,000,000 in new municipal issues have been placed for investment during the past few weeks. High-grade issues of the states and larger municipalities have been selling at prices to yield from 5½% to 5¾% on maturities of 10 years or longer, and 6% on the shorter maturities. Second-grade municipals have been ruling on a 6% basis for long maturities and as high as 7% on the short maturities. The supply of new issues has been unusually small, and this has been an important factor in the maintenance of prices. It is interesting to note that municipals are now selling at prices which return the highest yield during the past twenty years. The increase in the volume of municipal offerings and the gradual increase in the cost of money are the responsible factors. From 1900 to 1910 municipalities were engaged in the construction of buildings or the selection of tangible property, but since that date road building has occupied a prominent position in municipal financing. Since 1915 the yields have increased at a more rapid rate. The Wall Street Journal recently published a comparison of the yields of 10 standard state, city and county bonds located in Massachusetts, New York, New Jersey, Ohio, Illinois, Minnesota, Utah, Oregon, Texas and Virginia. The bonds selected were direct obligations levied upon the real and personal property of the municipality, and the average yields follow:

1900	3.41%
1905	3.73
1910	4.10
1915	4.28
1920	5.25

The larger issues during the past month include $1,500,000 Jersey City 6s, to yield 5.65%, $4,-

000,000 Cleveland, Ohio, 6s, to yield 5.60%, \$1,500,000 Oregon 4½, to yield 5.75%, \$2,500,000 South Dakota 5½s, to yield 5.75%, \$1,645,000 Indianapolis 4¾s, to yield 5.50%.

American dealers offered \$2,000,000 British Columbia 6% bonds on a 7¾% basis, and Canadian dealers offered an issue of \$3,000,000 Province of Ontario 6s at par, to yield 6.23%.

Foreign Government Issues.

One of the most attractive foreign government offerings was made on June 1 in the form of \$50,000,000 Kingdom of Belgium 7½% 25-year bonds at 97¼ and interest. The particularly attractive feature of this issue is the fact that \$2,000,000 will be called by lot each year at 115. The yields, therefore, will vary from 24.89% on bonds called in 1921 to 7.95% on bonds called in 1945. The issue was over-subscribed and widely distributed and a strong secondary market has continued throughout the month. In response to improvement in exchange rates in Belgian francs, the Belgian External 6s, due 1925, became very active toward the close of the month and advanced five points to 99. These 6s were brought out in January at 95¼ to yield 7%. The holder has the option of surrendering his bonds and requesting the sale of 11,000 Belgian francs for each \$1,000 bond. He will then receive par for his bonds and half of the profits on exchange represented between the sale rate and the fixed rate of 11 francs to the dollar, the other half to be retained for the Belgian Government.

Anglo-French 5s were strong during the month, advancing to 99½. United Kingdom 5½s of 1921 advanced to 97⅛, and City of Paris 6s, were firm at 92½.

Railroad and Corporate Issues.

Railroad financing continued during the early part of June, and the new issues met with the same success which has attended similar flotations since the first of the year. The new issues included.

\$10,000,000	Union Pacific 7% Equipments, prices ranging from 100 to 101.
15,000,000	Southern Pacific 7% Equipments, prices ranging from 100 to 101.
15,000,000	Chicago & North Western Ry. 7% bonds, 100.

It is estimated that since the first of the year 24 railroads have placed a total of \$258,998,000, which included \$163,125,000 serial notes and equipments and \$95,873,000 bonds, most of which mature in ten years. After this month new railroad issues must be approved by the Interstate Commerce Commission, and it is anticipated that new issues will appear with less frequency as the major railroads have undoubtedly taken care of their pressing requirements.

Corporate issues have been offered in restricted volume, the principal issues including \$10,000,000 Hershey Chocolate Corporation First Lien 7½% bonds, to yield 7.85%, \$6,564,000 American Sumatra 7½% notes, to yield 8%.

Following the tendency of recent months there were fewer offerings of preferred stocks during June than in any month since the first of the year. The largest issues included \$20,000,000 Goodyear Tire & Rubber 7% preferred and \$10,000,000 common, in blocks of two shares of preferred and one of common for \$300.

Public Utility Issues.

June witnessed a revival of interest in public utility issues, and new issues were promptly absorbed by discriminating investors. It has been unfortunate that the investing public has neglected public utility issues during the past year, largely as a result of the tragic position in which we find some of our major traction properties. In the traction field, however, there are many situations which merit confidence. The present census is showing an enormous increase in urban population, but during the past decade there has been little increase in traction mileage. This has resulted in a great increase in the number of passengers carried, and earnings in many cases have been adjusted to a profitable basis. Corporations furnishing power and light are enjoying unequaled prosperity. The installation of electric power in factory operations has resulted in an enormous demand on the power companies to supply current. The large central stations have demonstrated their ability to produce and distribute power at such an economical unit cost that their position is permanently assured. The increased density of population is reflected in the growing demand for light, and it has been estimated that there are now 14,000,000 homes in the United States still to be supplied with electric light. Before the war public utilities securities issued by corporations of undoubted strength, based on strong values and earning powers, could be purchased at prices to yield from 5% to 5½%. Today, with largely increased values and increased demand for the output, the same class of securities can be purchased at prices to yield from 7% to 8%. The prominent issues during the month include:

\$ 5,000,000	Commonwealth Edison 7% bonds, to yield 7.75%.
6,000,000	American Light & Traction 6% notes, to yield 7¼%.
5,000,000	Cleveland Electric Illuminating 7% bonds, to yield 7½%.
2,000,000	Idaho Power 8% bonds, to yield 8%.
4,000,000	Shawinigan Water Power 7½% notes, to yield 8%.
10,000,000	Ohio Cities Gas 7% notes, to yield 8%.

The combined average of 40 active corporation issues, as reported by the Wall Street Journal on June 26, was 72.92, compared with 72.14 on May 26, and 85.42 on May 27, 1919.

Chinese Consortium.

Mr. Thomas W. Lamont, who recently returned from a trip to China, where he represented the interests of a group of American banks, reports, in a statement issued on his return, "that the Governments of England,

France and Japan have come to an agreement with the Government of the United States, and each accepted in full the plan proposed by the United States, for the formation of a four-power banking group for a loan to the Government of China."

These groups have entered into a partnership to assist China in the development of her great enterprises, such as reform of the currency, railway building, highways, terminals, etc. The Consortium has no plan of exploitation laid out for China, nor will it undertake one except at the earnest desire, and with the hearty co-operation, of the Chinese people.

The government of Japan finally receded from its claim to certain special rights and privileges in parts of China and comes into the arrangement on equal terms with the other participating powers. The spirit and intent of the agreement is to supersede the old grab policy with a policy of enlightened co-operation that will promote peace.

The idea of international harmony which underlies the formation of this Consortium, as well as the possibility of aiding material and moral development of the Chinese people, are thus set forth in Mr. Lamont's statement:

> The American Banking Group, and the other banking groups, were organized primarily at the request of their respective Governments. Almost two years ago, in laying down the plan for the new Consortium, the American Government pointed out that if it were possible to arrange for banking groups of the four countries to lend assistance to China through the medium of an international group, namely the Consortium, a full and equal partnership would thus be established, calculated to be highly beneficial to China and to the interests of the four nations involved. The American Government in effect pointed out that, under such an arrangement, the international contest for new and valuable concessions in China, might largely be prevented; the setting up of new "spheres of influence" which in the past had proved detrimental to China's welfare might be done away with; thus the integrity and independence of China would be maintained and international jealousies in the Far East would in large measure be avoided.
>
> As to China, I am aware that many persons characterize it as a great disorganized, almost chaotic people. No one can spend even the short time that I was in China without being deeply impressed with the industry and sobriety of that people, with the idealism of many of their leaders, with the growth of public opinion there, with the profound effort that is steadily being made to establish a Central Government that will function as well as the local governments function. The present Government at Peking, as everyone knows, is weak and inefficient. Yet if the American people lend to the Chinese the counsel and the aid, material and spiritual, which the Chinese are so longing for and which they look to America to give to them, we shall, I am confident, witness in the coming years the development of a great and powerful nation there, a nation of four hundred million people, whose admiration and warm friendship the United States can, if we bestow proper thought and effort upon the matter, secure for all time to come.

For the first time in the history of the negotiations of the group loan to China, the representatives of the countries interested will hold their conference in New York City, the first meeting being called for September 15. In the past, such conferences have always been held in either London or Paris.

City Bank Publications.

During the current month, The National City Bank of New York has issued the following publications:

SUPREMACY OF THE ECONOMIC LAW, by George E. Roberts, Vice-President, The National City Bank of New York.

FINANCING FOREIGN TRADE THROUGH CREDITS AND FOREIGN INVESTMENTS, by John E. Gardin, Chairman of the Board, International Banking Corporation.

OUR SOUTH AMERICAN TRADE AND ITS FINANCING, by Frank O'Malley, Assistant Cashier, The National City Bank of New York.

THE SERVICE OF A BUSINESS LIBRARY, by Alice L. Rose, Librarian, The National City Bank of New York.

A Correction.

In the June issue of this Letter it was stated that the prices of automobiles had recently been reduced in Omaha. We have since been informed that there were no actual reductions in prices of cars but that proposed advances were temporarily deferred.

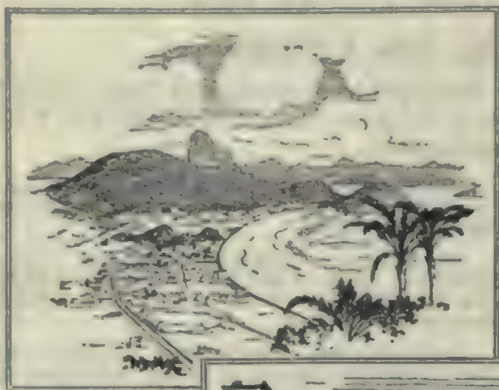
Discount Rates.

Rates on paper discounted for member banks approved by the Federal Reserve Board in effect June 26, 1920.

Federal Reserve Banks	Discounted bills maturing within 90 days (including memberbanks' 15-day collateral notes) secured by		Bankers acceptances maturing within 3 months	Trade acceptances maturing within 90 days	Discouuted bills secured otherwise than by Government war obligations, also unsecured, maturing within	
	Treasury certificates of Indebtedness	Liberty bonds and Victory notes			90 days (including member banks' 15-day collateral notes)	91 to 180 days (agricultural and live-stock paper)
Boston	5½	6	..	7	7	7
New York	5½	6	6	7	7	7
Philadelphia	*5½	5½	5½	6	6	6
Cleveland	5½	5¾	5½	5¾	6	6
Richmond	5½	6	6	6	6	6
Atlanta	*5½	5½	5½	6	6	6
Chicago	5½	6	6	7	7	7
St. Louis	*5½	5½	5½	6	6	6
Minneapolis	5½	6	6	6½	7	7
Kansas City	5	5½	5½	6	6	6
Dallas	*5½	5½	5½	6	6	6
San Francisco	5½	6	5½	6	6	6

*5¼ per cent on paper secured by 5¼ per cent certificates, and 5 per cent on paper secured by 4¾ and 5 per cent certificates.

NOTE.—Rates shown for Atlanta, St. Louis, Kansas City, and Dallas are normal rates, applying to discounts not in excess of basic lines fixed for each member bank by the Federal Reserve Bank. Rates on discounts in excess of the basic line are subject to a ½ per cent progressive increase for each 25 per cent by which the amount of accommodation extended exceeds the basic line.



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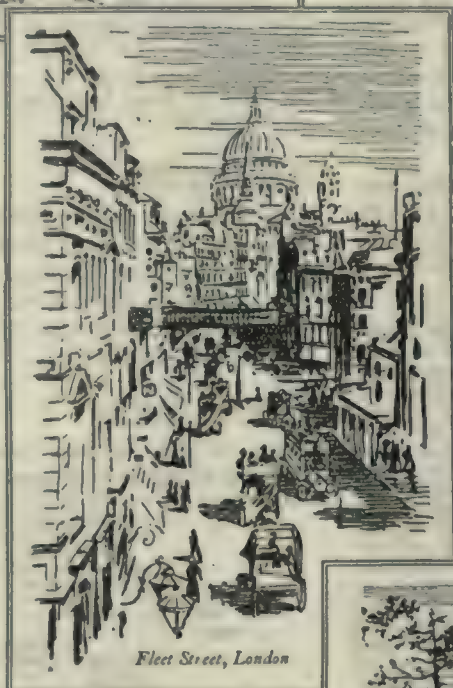

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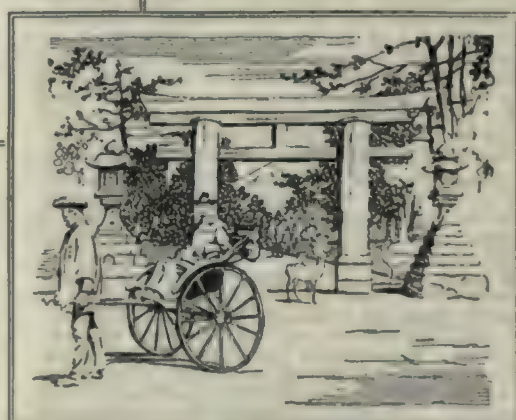

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1920

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, AUGUST, 1920.

General Business Conditions.

THE general business situation has undergone little change in the last month. Retail trade has been good for the season and confidence in the future is strengthened by the fine progress of the crops. Nearly everybody seems to understand that an abundant production on the farms is good for the country, although the doctrine of greater production everywhere is not so well appreciated. The settlement of the railroad wage controversy and improved prospects for peace in Europe were also factors on the constructive side.

Outside of the lines of production in which disturbance began several months ago, notably wearing apparel, the industries are more embarrassed by transportation troubles than by lack of demand for their products. The iron and steel people and other manufacturers of material entering into construction see plenty of business ahead, although house-building has suffered a check. Construction for business purposes holds up, but investors are hesitating to put money into dwellings or apartments at present costs and with the existing anti-landlord agitation. The scarcity of capital of course is an important factor, and with conditions as they are it goes more readily into investments for the service of business than into buildings for family use. In general it may be said that there is little evidence that the buying power of the public has been impaired, although there has been an accumulation of goods in some lines and prices are unsettled. The agricultural districts are looking for a continuance of good trade.

The Price Situation.

The textile trades are still very much disturbed, with the jobbing trade almost at a standstill, and a general suspension of production in woolen goods. Buying for the fall trade is very light and nothing is doing upon goods for spring delivery, the main trouble, apparently, being that nobody knows what the prices ought to be. There is a prevalent feeling among distributors that the peak has been turned and that goods will be lower; a large share of the orders placed in the spring for fall delivery have been cancelled, and although the merchants expect to need the goods for their trade they are afraid to take them on the old price level. They are largely over the fear that there will not be goods enough to go around.

On the other hand the manufacturers say that they see no prospect of an early reduction in the cost of goods. Wage rates in the mills were advanced 15 per cent on June 1st and they do not think it practicable to obtain a reduction at present. Other factors, such as coal and freight rates, are either higher or soon will be. Cotton, although down a little from the top figures of May, is still commanding over 30 cents for the fall deliveries. Wool is not moving to an extent which enables any calculations to be made upon it, and at any rate the wool for fall business, on the cancelled orders, is on hand at the old prices and the manufacturers decline to make it up or increase their investment in it until they know what they are going to do with it. In short, a deadlock exists while all sides wait for developments.

The National Wholesale Dry Goods Association held a meeting in New York last month with a large attendance, and resolved in favor of giving orders at once to the extent of 25 per cent of the goods required to cover fall business, but after making this associated declaration they went home without having individually executed the orders, which illustrates the general attitude.

Manufacturers are willing to make concessions at the expense of profits, but buyers do not know what it is safe to offer. Some small business has been done in print cloths for November delivery, lots of 60x80—38½-inch 5.35s selling at 16½. The top price on these goods was 26 cents, but to show how far things had gone it may be said that in the slump which followed the Armistice they sold down to 9 cents and under. So there is some reason for uncertainty as to where the bottom is.

Idle Machinery.

It is unfortunate that any productive machinery should stand idle at this time, but it is an unavoidable incident of the period of readjustment. The manufacturers are as timid about making up goods with a falling market in prospect as the farmers were about sowing a large

acreage of wheat with a withdrawal of the government guaranty in prospect. It is very costly to have the great investment in a textile mill stand idle and the labor force disintegrate, and it is safe to say that the proprietors are as anxious for continuous operations as anybody can be.

The situation is much the same in the English textile centers, although the stagnation is not quite so extreme, and the opinion is expressed that the world is still bare of goods and that buying must be resumed. The situation would change rapidly if the central countries of Europe were able to buy raw materials. The London *Economist* says:

> Travelers recently returned from the Continent state that Germany is in dire need of textiles, two Bradford merchants and topmakers who have been in the country being unable to purchase any wool underclothing at any price during the past fortnight. It is today being recognized more than ever that the sooner Germany can be brought back into commerce the better it will be for the entire trade.

Shoes and Leather.

During the first four months of this year the shoe industry was very active, but in May and June confidence in prices was disturbed, orders fell off and a good many orders previously given were cancelled. Some of the factories met the situation by agreeing that if any price reductions were made for the season they should apply to the pending orders. This had a tendency to stabilize matters but new business is very light.

The leather market is very quiet, with tanneries working at less than half their capacity. Sole leather and belting leather have been fairly well maintained in price, but upper leather in the form of cow hides, calf hides, sheep skins, etc., is very much reduced.

Mr. J. F. McElwain, head of one of the largest shoe manufacturing companies, has given out a statement in which he sums up the situation as follows:

> There has been a decline in upper leather and a moderate decline in sole leather. Other items have shown a radical advance during the past two or three months. Shoes figured for Fall and Spring will have to bear an increased cost of 15 to 25 cents a pair in fundamental fixed charges. This increased cost is made up of transportation charges, interest, lasts, dies and patterns, fuel, machine parts and repairs, cases and cartons, operating expense, increase in labor and organization,—if not an actual increase in piece rates and day rates, an increase due to lowered production. All of these items will be taken into consideration in figuring prices for the future. Although the public can expect some reduction in the price of shoes for Fall, this, I fear, will be moderate as compared with expectations.

The Crops.

The crops gained in condition in the critical month of July, and the prospects are for one of the best yields of foodstuffs ever produced. Winter wheat has been harvested and, thanks to a remarkable recovery of the crop in Kansas and the southwest, the outturn will be much above estimates. Reports from Kansas tell of phenomenal results, the quality being uniformly fine, and yield much above expectations. The Kansas State Agricultural Department estimates that 10,526,000 acres were planted to winter wheat in the State, of which 15 per cent was abandoned, leaving 8,943,000 acres to be harvested. The average estimate of 2,000 correspondents upon yield is 16.46 bushels per acre, or slightly over 147,000,000 bushels for the total. A good many well-informed parties think the total will be higher. The United States government estimate was 110,000,000 bushels.

The results in Oklahoma are similar. Threshing is well under way in that state, and wheat is threshing out three to five bushels per acre better than expected. There also the quality is the best.

Small Grain Prospects Above the Average.

The spring wheat crop has been reported as suffering in spots from black rust, but it is not thought that the yield will be seriously affected. Cutting is in progress. The Federal Reserve Bank of Minneapolis reports the prospects for all small grain above the average for ten years.

The wheat crop in the aggregate will probably exceed 850,000,000 bushels.

The improved prospects upon wheat have taken about 30 cents per bushel off the price since the opening of free trading on the exchanges. While the shortage of cars is an annoyance to farmers who want to sell immediately, it is likely that the delay in marketing which is thus enforced will help to sustain the price. Wheat has not yet begun to accumulate in primary markets.

The other small grain crops are good. The flax seed yield for Minnesota, the Dakotas and Montana is estimated at 15,000,000 to 20,000,000 bushels, against 6,000,000 bushels last year. The spectacle of shipments of Argentine flax seed to Duluth and Minneapolis to supply the crushing mills of those cities will not be seen in the coming year. The seed is quoted at Duluth at $3.30 to $3.40 per bushel, against $5.88 to $6 a year ago. Linseed oil is quoted at $1.50 per gallon against $2.17 a year ago.

The corn crop is in fine shape in all the leading corn states, with plenty of moisture to make the ears and nothing to fear but a premature frost.

The crop of potatoes promises to be larger than last year in the chief potato-growing sections. The short crop last year was a serious factor in living costs, as the price has been phenomenally high even up to the last of July. All the vegetable crops are reported by the Bureau of Markets, Washington, as now selling at wholesale cheaper than last year.

The cotton crop has made remarkable gains in the last two months, and latest estimates are for a crop around or approaching 13,000,000 bales, which would be the largest yield since the record crop of 1914.

The wool situation is practically unchanged, trading being almost wholly suspended. A well-informed correspondent at Denver states that at this time last year 80 per cent of the Wyoming clip had been contracted for at 50 to 60 cents per

pound, but this year there are almost no buyers in the field and practically no sales have been made. Some consignments have been made with advances of 15 to 25 cents per pound.

The price of sugar is on the down grade, and the prospect is that the next world-crop will be larger and the price lower. It is now calculated that the 1920-21 crop in Europe will aggregate 3,795,000 tons against 2,634,000 tons for the 1919-20 crop. The estimate for Germany is 1,300,000 tons against 750,000 in the last crop. The acreage planted in every sugar-producing country has been increased, which is very practical evidence as to how high prices eventually work their own cure. In the last two months sugar has come to this country not only from all the countries bordering on the Caribbean, but Argentina, the Philippine Islands, Japan, Java, Belgium and Czecho-slovakia. The price brought it and the influx broke the market after all the well-meant activities of the government had failed to do so.

The Downward Tendency of Prices.

The general situation is favorable to lower prices. A good crop of foodstuffs has been raised, and as it is likely that Europe will require less than during the past year, it is probable that the prices of these will be somewhat lower than they have been, although a return to normal conditions is out of the question until Russia resumes exportations on the old scale.

The growth of importations from $3,095,720,068 in the fiscal year ended June 30, 1919, to $5,238,746,580 in the year ended June 30, 1920, and from $343,746,170 in July, 1919, to $553,000,000 in June, 1920, is significant of the recovery of productive power outside of the United States and of the influence of high exchange rates on the United States in directing goods to this market. The influence of these importations will be for lower prices.

One of the chief factors in high prices is conceded to be the inadequacy of transportation facilities. Grain would be lower in the central markets, coal would be cheaper and manufacturing costs generally would be lower if the congestion on the railroads was cleared up. But this is only a temporary difficulty, and will be gradually overcome.

A general recovery from the effects of the war is going on. The replacement of shipping is well on the way to accomplishment; ocean freight charges are declining and shipbuilding operations are diminishing, releasing workmen to other employments and reducing the demand on the steel mills. It will take years to bring up the railroads and other public utilities and do the house-building needed, but gradually the stress will be lessened, as equipment is increased, importations increase and our exportations decline. The great business which is in sight for the steel works and the electrical companies is in enlarging the productive capacity of the industries.

Gradual Readjustment.

In short, conditions seem to favor a gradual readjustment of prices toward a lower basis. This is what everybody should desire, because it means keeping the industries in balance, with continuous employment for wage-earners, a continuous turn-over in trade, a gradual reduction of inventories and indebtedness and a safe re-establishment upon the foundation of normal solid values.

The wise policy for the time is one of ready adaptation and co-operation all around. Changes are impending and it is no time for any group to take an arbitrary position and say that it will have things its own way. The problem is to lower the whole level upon which the exchanges of industry are being made without disrupting the organization and interrupting production. If, as seems probable, the farmers must accept a gradual reduction in the prices of their products, as Europe becomes more self-sufficient, some impairment of their purchasing power will result, and they will buy less of the products of other industries unless these are correspondingly cheaper. It will be useless for the producers in other industries to insist that they shall have the same money income if the great agricultural population has less. There is a natural equilibrium and reciprocity among the industries which is bound to be maintained because it is fixed in the very constitution of things. If the readjustments are not made reasonably and harmoniously they will be made any way by the force of economic law.

Conditions in the North of Europe.

Reports from abroad indicate a slackening of the demand for goods and a tendency to deflation. The labor situation is giving much perplexity, owing to low production and high costs. In Denmark, where a shipping strike was broken by volunteers from the farmers, merchants and all lines of business the industrial situation is now quiet and it is thought there will be no more trouble for some time. All of the big strikes in Denmark have been lost.

Money is very tight in the three Scandinavian countries. The Norges Bank (Central Bank of Norway) raised its discount rate to 7 per cent on June 25, the central banks of Sweden and Denmark having raised their rates to that figure some time earlier. The central bank of Finland has its rate at 8 per cent.

All of the Scandinavian countries are looking for trade with Russia, and the Soviet government has made advance deposits of gold in all three countries.

Money and Banking.

The credit situation has not shown the improvement that was hoped to be accomplished in June and July, by way of preparation for the fall demands, although the loans of the Federal

Reserve banks have been reduced about $100,000,000 in July.

The total loans of the twelve Federal Reserve banks, as shown by the statement nearest to the first of each month in the past year have been as follows:

July 3, 1919	$2,225,707,000
August 1, 1919	2,222,730,000
September 5, 1919	2,202,085,000
October 3, 1919	2,342,604,000
November 7, 1919	2,623,075,000
December 5, 1919	2,622,327,000
January 2, 1920	2,805,818,000
February 6, 1920	2,758,289,000
March 5, 1920	2,922,542,000
April 2, 1920	2,824,554,000
May 7, 1920	2,914,456,000
June 4, 1920	2,974,946,000
July 2, 1920	2,935,279,000
July 23, 1920	2,823,450,000

The result of the efforts of the Federal Reserve authorities and cooperating bankers to accomplish some degree of deflation is disappointing, but it must not be thought that nothing has been accomplished. The first task was to stop the inflation which had been steadily going on for the past year, and in view of all conditions perhaps that is as much as could be hoped for. The insufficiency of railroad service has been an almost insuperable obstacle to enforced liquidation. It would be worse than folly for bankers to press customers who are in possession of abundant assets and are anxious to turn them but unable to do so because of transportation difficulties. The situation is one to be dealt with intelligently, patiently and constructively.

It must be remembered in connection with all talk about seasonal fluctuations that when business is running at the limit of activity all the time seasonal fluctuations largely disappear. Trade and industry have been active almost without variations during the past year. The movement of last year's crops was not accomplished last year, but has been going on ever since they were harvested and is not completed yet.

National Bank Loans in Five Years.

Moreover, the idea that there is an enormously greater demand for credit in the fall than in other seasons is a good deal of a myth, or at least misstatement. In the five years from 1910 to 1914 the loans of all national banks as shown by the June and fall statements were as follows:

	June 30	Sept. 1	Nov. 10
1910	$5,430,159,186	$5,467,160,637	$5,450,644,385
	June 7	Sept. 1	Dec. 5
1911	$5,610,838,787	$5,663,411,073	$5,659,109,826
	June 14	Sept. 4	Nov. 26
1912	$5,953,904,431	$6,040,841,270	$6,058,982,029
	June 4	Aug. 9	Oct. 21
1913	$6,143,028,132	$6,168,558,525	$6,260,877,353
	June 30	Sept. 12	Oct. 31
1914	$6,430,069,214	$6,400,767,386	$6,316,478,470

The largest increase shown in these years was less than two per cent. The truth is that the principal reason for the disturbance which formerly occurred in the fall months was the necessity of providing an increased amount of currency for circulation. Before the establishment of the Federal Reserve system with its elastic currency issues this involved a distribution of reserve money and caused much inconvenience, but now the effect of deposit withdrawals is minimized by the use of reserve bank currency.

Incidentally this may be referred to as a sufficient reason why no attention should be paid to criticisms which emphasize the amount of reserve notes in circulation. On no account should there be any arbitrary interference with the natural fluctuations in the volume of reserve currency. This currency is interchangeable with reserve deposits and it is highly important that it shall be so, without let or hindrance. The remedy for inflation is by curtailing the credits which make the deposits rise, not by refusing to convert deposits into currency. It is immaterial whether outstanding credit is in the form of bank deposits or bank currency, and the public should be allowed to use checks or currency as suits its convenience.

Inflation and the Rise of Prices.

The great increase of loans which took place last fall was not due to the seasonal demand, but to the rise of prices, which in turn was due to the demand for commodities and labor in excess of the supply. The banks were financing a competitive struggle over a limited supply of labor, material and goods. The policy of restricting credit should have been emphasized earlier, but, as is well known, banking authorities abstained from vigorous steps throughout most of last year out of consideration for the people who had borrowed to buy Liberty bonds and notes and were still in the banks.

It is well to refresh the memory frequently as to the expansion of bank credit since 1914. The loans and discounts of all national banks on June 30, 1914, aggregated $6,430,069,000, and on November 1, 1918, ten days before the Armistice, they were $10,096,940,000. Since the latter date the figures for each statement are given below:

December 31, 1918	$9,918,294,000
March 4, 1919	9,916,187,000
May 12, 1919	9,904,821,000
June 30, 1919	10,574,838,000
September 12, 1919	11,085,162,000
November 17, 1919	11,560,242,000
December 31, 1919	11,786,227,000
February 28, 1920	11,994,523,000
May 4, 1920	12,238,582,000

Rediscounts of national banks with Federal Reserve banks are not included in the above. These amounted on May 4, 1920, to $952,000,000; on June 30, 1914, the Reserve banks had not begun business. The total increase of loans of national banks from June 30, 1914, to May 4, 1920, was $6,810,513,000, or about 100 per cent. The increase from June 30, 1919, to May 4, 1920, was $1,713,000,000, not including re-discounts. The aggregate loans of state banks and trust companies are somewhat greater than those of the national banks, and have probably increased in

about the same proportion, but the figures are not available. The total increase of bank loans in the past year is probably between $4,000,000,000 and $4,500,000,000.

Of course prices and wages have gone up! That amount of new purchasing power could not be turned into the markets without driving them up. And see the futility of it! This new credit has been granted upon the theory that it was necessary to aid production, but production is but slightly larger, so far as records are available, than a year ago. Higher wages have been granted to compensate for higher prices, but prices have been forced still higher in consequence.

The movement of loans and of the general wage and price level since 1914 has been closely together, and it will go on together unless a resolute effort is made to hold it in check. Nothing is to be gained for anybody by continued traveling in this cycle.

Attitude of the Public Changing.

The most hopeful feature of the situation is the fact that the public seems to be finally impressed that expansion must stop and that business must be handled within existing lines of credit. Expansion has been so much the order of the day, and higher wages and prices so readily obtained, that it has been difficult to change the attitude of mind, but common sense tells sensible people that such a riot of inflation cannot go on indefinitely, and that every interest will be served by halting the movement. It will be stopped when production catches up with demand or demand is held down within the normal capacity of the industries. It is the attempt to buy more goods than there are, build more houses than there is material for, hire more men than there are and do more business than the railroads can handle, that forces up prices and calls for more credit. The country cannot make up for all the lost construction of the war-time at once, and is the less able to do so because it is working shorter hours and spending more for current consumption than formerly.

The harvest is well over, except in the northern section, but owing to the car shortage there is but slight movement for grain as yet and but little demand for credit on that account. The country banks have financed the farmers with some help from the centers, and while a more rapid movement of the crop would make new demands on the centers it would liquidate the country banks and enable them to pay their indebtedness. The tight condition everywhere, however, is tending to restrict building operations, land sales, new investments and other outlays not absolutely necessary and of the kinds which absorbed a large amount of credit last year. This is the influence which must be counted on to slowly clear up the situation.

A noteworthy feature of last year has been the depletion of country bank balances in the centers and the increase of their loans. It is an unusual circumstance for bank loans to go up and bank deposits to go down at the same time, as they have done since the beginning of 1920.

The Credit Situation.

Notwithstanding the stringency of credit and the heavy price declines that have occurred in some lines, the situation has been very free from insolvencies. A few important houses have been obliged to ask for extensions and in several instances committees have been appointed, but in all of these instances creditors have been satisfied that the parties were solvent and would be able to continue business. In some lines where there has been a very rapid expansion of production, as in silk manufacture, a good many small, new concerns who started with little capital, have been obliged to cease operations, but their liabilities have not been large enough to occasion any disturbance. The general opinion among well-informed people is that the business structure of the country is far stronger than at any time of crisis in the past, and that a disturbing number of insolvencies is not likely to occur.

The Railroad Wage Award and Charges.

The most important event of the past month has been the railroad wage award, which raises the pay of all employes, and is calculated to adjust any unfair relations heretofore existing between the several classes, and in view of the cost of living to give the highest percentage of advance to the lower-paid labor. The average increase is something over 20 per cent. and is estimated to aggregate about $600,000,000 for a year, bringing the total railroad pay roll for one year to about $3,600,000,000. The editor of the Railway Age, calculates that with this action wages have been increased about 115 per cent. since the beginning of the war.

This last award is the action of an official board and represents a most painstaking effort on the part of public authorities to ascertain what is right and fair in the premises and to settle the controversy on a just basis. Taking the interests of the whole population into account there can be no doubt that the award is generous to the employes. Wage-earners in some of the leading industries have had their pay increased by more than 115 per cent. in the last five years, but in more cases, probably, the increase has been less than that rate.

The claim for an increase was based upon the rise in the cost of living and granted upon that theory. According to official calculations it fully covers the average rise in family living expenses, and the probabilities are for a decline rather than a further rise in these expenses in the future.

We have heretofore pointed out the fallacy of the argument that everybody should have his income increased in time of scarcity

in order to enable him to buy as much of everything as he was accustomed to buy when no scarcity existed. The thing cannot be done, because the increase of income does not increase the supply of goods. There is no hope of relief from the shortage of goods or from high prices or the chatter about profiteering until the people understand that the only remedy is in producing goods enough to go around.

Transportation and Essential Industry.

However, the railway industry is an essential industry and it is necessary that the roads shall have skilled employes and be operated to their capacity. Much of the trouble with transportation in the last year has been due to the loss of experienced employes who left the service for better paying jobs elsewhere. Many of these other jobs will turn out to be temporary, but the transportation service should be able to command good men. The country has reached a situation where it is necessary to consider that some kinds of work and of business are more important to the public welfare than others, and that if we cannot have everything we want, certain priorities must be established.

It is time the public understood that transportation must be treated as a vital industry. It must be made a profitable industry to all engaged in it, not out of special consideration for them, but as a fundamental condition for the health and growth of all business. This statement applies as well to the capital invested as to the labor employed. There is no way of assuring an adequate supply of either labor or capital in the railroad business except by making the pay fairly compensatory as compared with that in other occupations. Labor has been taken care of by increasing the wage charge on the companies, and the next thing is to take care of the investments by providing for charges upon traffic that will meet the new expense and comply with the provisions of the Esch-Cummins Act.

It is idle to say that business cannot stand freight charges high enough to pay the cost of operating the railroads, including the return now contemplated by law upon the capital investment. Calculations as to the amount that will be added to the cost of living are not in point. If living expenses are to be reduced it can be done more advantageously than by reducing the efficiency of the railroads. An increase in the latter at the present time would reduce living expenses materially. The railroads are far more important to the country than a great many individual enterprises that are going on. Very likely a good many adjustments will have to be made on account of the higher freight charges, but they will be of little importance to the country compared with the value of good railroad service. There always are some people in every line of business who cannot stand any further burden; they are marginal producers, and increased freight charges will put some of them out, but even so the business community must adjust itself to maintaining the railroads in efficient operation. That necessity should be faced squarely, and without considering any other way of meeting the cost of railway service than by charges on the traffic.

Losses of Investors.

Even the return contemplated by the Esch-Cummins Act will not do for investors in railroad securities what the wage award will do for the employes. The wage award undertakes to make the employes whole against all the rise of prices which has taken place as a result of the wastes of war, disorganization of industry, lowering of production and inflation of the currency incidental to war. There is no probability that the railroads will be valued by the Interstate Commerce Commission upon a basis which will give the security holders a return related to the rise of prices. Indeed, that would be impracticable in the case of the bond-holders. The investors will get their interest and dividends on a pre-war basis and suffer the loss of purchasing power in their incomes. It need not be thought, however, that the loss is all theirs, since, after paying taxes and higher living expenses, they will have much less left from their incomes for investment. There will be less capital for the expansion of industry, enterprise will be held in check, improvements will be retarded, interest rates will be higher, the demand for labor will be less, and the entire community will pay for the loss of capital. After the government and all its commissions have had their say, the economic law will make the final adjustments.

Railroad Valuations.

In considering the rate case now pending the Interstate Commerce Commission has obtained a summary of the work of its Valuation Commission, so far as it is practical to include the results arrived at. This summary prepared by the Commission's own engineers indicates that for fifty railroad systems with an aggregate mileage of 51,853 miles the cost of reproduction new, based on 1914 figures, would be $3,203,782,543, while the book value of these according to the property accounts of the companies, aggregates $3,158,275,156. Reproduction costs exceed book value by 1 per cent., and outstanding securities are something less than the book values.

The report makes another statement which is of interest in this connection. The casual reader might be inclined to say that this show-

ing was largely due to the rise of land values, but the report states that of the total reproduction costs as calculated 91 per cent. represented construction and only 10 per cent. land.

For the ten largest roads in the list of fifty covered by the report the comparison between the railroad property accounts and the engineer's reports was as follows:

	Railroad Property Investment Account	Gov't's Report of Cost of Reproduction Incl. Cost of Land.
Great Northern ....$	384,273,853	$418,204,335
Chicago, Rock Island & Pacific	341,401,305	388,601,208
New York, New Haven & Hartford	195,505,844	319,599,023
Boston & Maine.............	195,903,526	276,528,128
Cleveland, Cinc., Chic. & St. Louis	144,375,812	159,269,845
Oregon-Washington R. R. & Nav.	156,642,559	143,347,128
Minn., St. Paul & Sault Ste. Marie	116,953,635	114,701,111
Oregon Short Line	113,094,103	109,685,219
Chicago & Eastern Illinois....	78,990,280	77,751,855
Central of Georgia...........	62,003,324	73,609,448

This indicates that the sensational representations as to the amount of water in railroad stocks will be finally disposed of by the official inquiry.

Statement by Mr. Clark.

Mr. Edward E. Clark, Chairman of the Interstate Commerce Commission, before his appointment upon the Commission by President Roosevelt, was head of the Brotherhood of Railroad Conductors. He has made an effective member, and at his appearance before the Congressional Committees when the new railroad law was pending, expressed opinions favorable to the policy of establishing a fixed return upon the capital investment. In a recent address he is quoted as saying:

"The public must be willing to pay for the class of transportation that the public demands, and if the public is not willing to pay for the kind of transportation that it wants, it will have to be content with the kind it is willing to pay for.

"I do not believe that government ownership and operation of railroads in this country is the most desirable thing.

"To my mind the most striking thing about the new legislation is the very extreme and radical change in the governmental or public policy with regard to the regulation of railroads. Perhaps the most complete change is that with regard to pooling and the consolidation of competing lines and to such amalgamation of the different carriers into larger systems as will tend to increase the effectiveness and the efficiency of our transportation system and render a greater and better public service.

"To my mind the Commission cannot be effective except in pursuit of a sound policy, and so we have been endeavoring, as best we could, to study some of the most important matters from the standpoint of policy.

"The purpose of the Congress, has been, as I have said, to build up a system of transportation that is adequate and efficient. It has declared the purpose to make the users of that transportation system pay what is reasonable for the services they get, and to afford to those who are owners of those properties a fair return upon the value of the property that they devote to the public use.

"We (the I. C. C.), realize the magnitude and the importance of this question; we realize that the admonition that all of these relations shall be just and reasonable means that they shall be reasonable for the one and reasonable for the other, just to the one and just to the other."

The Railroad Congestion.

The railroad situation is the focus of criticism just now, but with more difficult conditions the railroad companies have been moving more tonnage this year than last. The companies received back their properties on March 1st, there is reason to believe in a deteriorated condition. Probably the percentage of cars in bad order never was so high, or the shortage of cars so great, and it cannot be claimed that they have had much time in which to add to the equipment or enlarge the facilities. The discontent of the employes which had been brewing under government control, not only broke out in strikes but impaired the general efficiency of the operating force. Certain difficulties undoubtedly were incidental to the resumption of independent operations, but the results afford little warrant for the hasty criticism which declares that private management has broken down. It is not a failure under the circumstances to have handled more traffic than ever was handled before. The railroads cannot meet the growing needs of the country without the constant expenditure of great sums of capital upon them, and such expenditures have not been made in recent years.

The coal situation is bad, but it is made much worse by the fact that the coal strike of last fall exhausted the reserves of coal ordinarily maintained by large consumers, thus making the even distribution of current production a matter of greater importance than usual. The reserves have not been made good, so that many consumers feel that they are at the point of exhaustion and are not only clamorous for coal but bidding against each other for it and forcing up the price. This affords the basis for charges of profiteering, but the rise of prices when competitors are determined to increase their shares of a limited supply is a perfectly familiar phenomenon, and nobody has ever discovered a way to prevent it except by having the public authority take over the supply and apportion it. The consumers put up the prices on themselves.

The following figures show the total shipments of bituminous coal from the mines in each year of the last ten and for the first six months of 1920:

	Tons.		Tons.
1910................	417,000,000	1916................	503,000,000
1911................	406,000,000	1917................	552,000,000
1912................	450,000,000	1918................	579,000,000
1913................	478,000,000	1919................	458,000,000
1914................	423,000,000	First six months, 1920..	255,000,000
1915................	443,000,000		

Moreover, the record shows that in none of these years did the shipments of the first six months equal those of the second six months and that in the first six months of 1920 they exceeded those of the first six months of 1919 by 43,000,000 tons.

Mr. Clark, the Interstate Commerce Commission's chairman, says in a letter dated June 23, 1920:

"The heavy traffic on our railroads means the consumption by them of unusual quantities of coal. The reserves being so badly depleted, public utilities and manufacturing plants have been and are living almost from hand to mouth for fuel.

"Strikes of employes, more particularly yardmen, have occurred and are occurring from time to time in various sections of the country. They necessarily impede the movement and distribution of cars and slow up the whole operation.

"The existing facilities are not sufficient to properly meet the present demand for transportation, but if we could have 100 per cent of earnest and efficient co-operation and work on the part of all the railroad officials and employes and of the shipping public the available facilities could be made to suffice in a way that would avoid substantial loss or suffering to any.

"A cordial spirit of helpfulness and co-operation has been manifest on the part of the great majority of the railroads and of the shipping public, but there are always those who are unwilling to fall in line or unwilling to contribute their part to any movement in the common interest. Habits are acquired, sentiments crystallized and policies adopted among some people and in some quarters as the result of war conditions which are not in harmony with the principles of our government or in line with the common welfare. It is to be hoped that they will gradually and completely disappear.

"The necessity for more facilities and equipment cannot be met at the moment. Acquisition of new facilities involves various and sometimes intricate and difficult problems of financing and, of course, they must be constructed."

This expresses the views of a public official who is struggling with the responsibilities of his task. It is an appeal for patience and cooperation, and in marked contrast to the explosive utterances prevalent over the country.

Foreign Trade and Exchange.

The trade balance in favor of the United States in June was only $78,000,000, the smallest for any month since before the war. Imports at $553,000,000 were the highest ever recorded.

Exports and imports by months during the last fiscal year have been as follows:

	Exports.	Imports.
July	$568,687,515	$343,746,070
August	646,054,425	307,293,078
September	595,214,266	435,448,747
October	631,618,449	401,845,150
November	740,013,585	424,810,272
December	681,415,999	380,710,323
January	722,063,790	473,823,869
February	645,145,225	467,402,320
March	819,556,037	523,923,236
April	684,538,438	495,738,571
May	745,868,402	431,004,944
June	631,000,000	553,000,000
Total	$8,111,176,131	$5,238,746,580

The above figures do not include gold or silver. Exports of gold during the year were $467,000,000; imports, $151,000,000; exports of silver, $179,000,000; imports, $102,800,000.

Exports and imports in each of the last eight years have been as follows:

	Exports.	Imports.
1920	$8,111,176,131	$5,238,746,580
1919	7,232,282,686	3,095,720,068
1918	5,919,711,371	2,945,655,403
1917	6,290,048,394	2,659,355,185
1916	4,333,482,885	2,197,883,510
1915	2,768,643,000	1,674,220,000
1914	2,364,626,000	1,894,160,000
1913	2,465,884,000	1,813,008,000

The foreign exchange table, showing present rates and changes of the last month follows:

	Unit Value	Rate in cents June 25	Rate in cents July 26	Change from par	Depreciation
Canada	1.00	.8800	.88	.12	12.00
Germany	.2382	.0270	.0245	.2137	89.71
Italy	.1930	.0616	.0555	.1375	71.24
Belgium	.1930	.0870	.0824	.1106	57.31
France	.1930	.0829	.0775	.1155	59.84
England	4.8665	3.9675	3.7950	1.0715	22.02
Switzerland	.1930	.1825	.1718	.0212	10.98
Holland	.4020	.3562	.3450	.0570	14.18
Denmark	.2680	.1645	.1620	.1060	39.55
Norway	.2680	.1678	.1625	.1055	39.37
Sweden	.2680	.2210	.2155	.0525	19.59
Spain	.1930	.1670	.1567	.0363	18.81
Argentine	.9648	.9537	.8875	.0773	8.01
Japan	.4985	.5150	.5150	.0165	*3.31

*Premium.

It will be seen that the European exchanges, after showing greater strength for several months, have declined heavily, the drop having occurred for the most part in the last half of July. Various explanations are given, among them the Polish-Russian crisis and the approaching maturity of the Anglo-French loan, but the most direct influence has been the increased offerings of sterling bills. In the last two weeks both wheat and cotton bills have made their appearance in round amounts, and the market has not been in shape to take them without recessions. The Continental exchanges have been affected by the London rate.

Although the balance of trade has been against Japan for the last half year, large balances were previously accumulated here, and the Japanese banks have been drawing on these during the past month to the extent of about $11,500,000 in gold. The movement probably is due to the disturbed state of business in Japan. The exports and imports of that country have both fallen off, but it would not be strange under existing circumstances if the latter should fall off more than the former.

India continued, during last month, to take but little gold from London, and a moderate share of the arrivals from South Africa have been detained for New York. A resumption of silver purchases in London for the India market is reported and the future market for silver in India is again quoted, after having been suspended throughout the war. The price of silver in London has recovered several pence and foreign silver is worth about 94 to 95 cents in New York, with the United

States government buying domestic silver under the Pittman Act at $1 per ounce.

The question of how the French government is proposing to pay its half of the Anglo-French loan of $500,000,000 which matures October 15, is still unanswered, but it has been announced that a representative of the French treasury will soon visit this country, presumably to discuss this subject.

South American Exchanges.

The exchange situation between New York and Buenos Aires has continued in favor of the former, with the new development that the Argentine government after granting orders against its balance in New York to the aggregate amount of about $43,000,000, shut down on further drafts of this kind, thus virtually suspending gold payments and throwing the market on its own resources. The effect has been to put drafts on New York at a premium of approximately 10 per cent. in Buenos Aires, which will make American goods cost more in that market, and to that extent discourage our trade in that country.

This is a reversal of the situation last March, when the balance of payments was in favor of Argentina and gold was going out from here at such a rate that some timid people were for having the United States government do what the Argentine government has now done. Perhaps they will find support for their arguments in this action of the Argentine government, but time has shown that such interference was unnecessary then and will probably show it to have been unnecessary now. We will not presume to criticize the policy of the Argentine government, but the percentage of gold reserve to paper currency is very high in that country, and the present situation probably is temporary. When the season for exporting wool comes around the trade balance is most likely to again turn over in favor of Argentina.

Exchange with Uraguay follows closely that with Argentina, and the fall in exchange with Rio Janerio has been even heavier than with Argentina and Uraguay. It is unfortunate that these violent fluctuations in exchange should occur between countries whose trade-relations are as mutually advantageous as those of the United States and these countries.

The long-pending joint application of the governments of Great Britain, France and Italy for a loan of 200,000,000 gold pesos from the Argentine government seems to have been finally abandoned. The European governments have given notice that they no longer desire the credit. It was wanted to finance the purchase of Argentine products, but that seems to have been accomplished by other means, as Argentine exports since January 1, last, have been heavy beyond precedent. A recent report from Mr. Robertson, United States Consul-General at Buenos Aires, says that Argentine exported 2,555,223 tons of wheat during the first four months of this year, as against 364,873 tons, 801,103 tons, 628,829 tons, 950,758 tons and 1,638,232 tons during the corresponding periods, respectively, of the years 1919, 1918, 1917, 1916 and 1915. In addition to the amount actually exported the sales for export were so heavy that the amount available for home consumption has been found to be too small and the Argentine government has negotiated for the repurchase on public account of a large amount which had become the property of the French government.

A Brotherhood Bank.

A Washington dispatch says that a charter has been taken out for "The Brotherhood of Locomotive Engineers' Co-operative National Bank of Cleveland, Ohio," which is to be established with a capital of $1,000,000. No authoritative statement about the institution has been given out, but parties who have assumed to speak for it have said that the railroad brotherhoods and other labor organizations were resolved to have their own banks and keep their money where it "would no longer be used against them," and that the proposed institution would "lend money to workers and farmers, and not to speculators and manipulators."

If that is the way the brotherhoods feel about it they are taking the right course in organizing a bank of their own, and everybody will be glad to see them do it. If they think their deposits in other banks have been somehow used against them, or if they and others think the existing banks favor speculators and manipulators rather than workers and farmers, probably no amount of argument will convince them to the contrary. It is unfortunate that any number of people should hold such opinions, which sound absurd to bankers, but since they are held, it is desirable to show that they are unfounded and that the public is honestly and effectively served by its banking institutions. The most practical way to dispose of complaints on this score will be to have the critics themselves get into the banking business.

Banking An Open Field.

The first demonstration they make is that the banking field is open to everybody; the business is not a monopoly. Any group of reputable people who will pay in the required amount of capital, can start a bank. New banks are being started all of the time. In some respects it is a business more easy to get into and out of than almost any other, because it requires no heavy investment in a fixed plant, subject to deterioration. It is a highly competitive business, dependent upon public favor.

The banker is not in a position to exercise arbitrary power. He does not lend his own money. In order to make his business a success he must induce the public to leave its funds in his custody, and this is done upon two general conditions. He must be always ready to pay cash on demand, and the depositors have a claim to accommodation as borrowers. In general commercial banking the depositors are the chief borrowers. Nobody could get very far in the banking business without recognizing their claims, for the business is fundamentally co-operative. The banker may lend or not in a given case, but the growth of his business depends upon his giving satisfactory treatment to his patrons and upon their prosperity. A banker who neglected the wants of his own customers and his own community in order to use the funds elsewhere, would soon find himself without deposits. That would seem to be obvious, but evidently it is not to a great many people.

Is All Speculation Pernicious?

The new people in the business who intend to give no support to speculation will find that questions will arise among themselves as to what is speculation and what is legitimate business. There are not many business operations which have not some element of speculation in them. The farmer who plants a crop is making an investment in the expectation of a larger but more or less uncertain return in the future, and the man who buys the farmer's crop when it is harvested and carries it and distributes it throughout the year to the consumers, is acting from a similar motive and rendering a necessary service.

The party who buys commodities when he thinks they are lower than conditions warrant, with the expectation of selling later at an advance, is a speculator, but such dealings broaden the market and tend to stabilize it.

Is it legitimate to store eggs in June for consumption in January? Who knows what it is safe to pay for eggs, or lend upon eggs, in June to be stored for the winter market? Who knows how freely hens will be laying next fall and winter? And if as the season develops and conditions change, the original purchaser of June eggs concludes to sell to a secondary purchaser who will carry them the remainder of the season, is either a pernicious speculator? Would the interest of the public be served by requiring the producer to carry the eggs from June to January, or by forbidding the first dealer to sell them to another dealer? Can the second dealer get a higher price for the eggs in January than the first dealer could have obtained if he had carried them the full time, and is there gain or loss to the public in having a free market for eggs? Just where does pernicious speculation begin, and to what extent is it advisable that the banker should attempt to regulate it or hold the scales between producer and consumer?

Questions of Banking Policy.

Just now there is an appeal for bankers to lend money to wool-growers to enable the latter to carry their wool until prices recover from the recent slump; and on the other hand a general demand that bankers shall not support the withholding of products from market.

Is it legitimate to lend money on stocks and bonds? They represent tangible property, i. e., lands, buildings, machinery, goods. Is it legitimate to lend on the pledge of such property, or would it be in the public interest to deny to its owners the right of using their credit?

Of course these questions come up to bankers in many phases, and discrimination must be exercised according to the circumstances of each case and the conditions of the time. At the present time the pressure for credit is so great that there is necessity for discrimination in favor of the most essential uses, as there is in apportioning railroad cars, but in ordinary times it is safe to say that the public would no more want arbitrary regulation of business by the bankers than by the railroad companies.

If the Brotherhood Bank helps to assure people who are doubtful on the subject, that there is free entrance, actual competition, and fair play in the banking field, it will serve an excellent purpose, and we are confident that it will have an influence to this end. The more everybody knows about the services of the entire business organization, the better, and the more widely the ownership of banking corporations and all other corporations can be distributed, the better.

Cooperative Industrial Associations.

The newspapers last month chronicled the presence in the port of New York of the Italian steamship "Crema," which is one of a fleet of five freight vessels owned, it is said, by officers and men of the Italian mercantile marine. In other words, it is a cooperative shipping company, recently organized under the auspices of the Italian government, which sold the ships upon favorable terms. There are about 31,000 members of the association, each of whom pays a percentage of his wages monthly into the treasury to complete the purchase of the fleet. The earnings, which at present are very good, are applied to the same purpose.

The members of the organization elect the Board of Directors, which must include representatives of both officers and crew.

The Chief Officer of the "Crema," when interviewed, said that discipline on the ships owned by the association was stricter than in the ordinary merchant vessels because if a member did not do his duty in a proper, seaman-like manner he would be ejected and blacklisted by the union.

Amid all the strife and recrimination of this time, here is an encouraging bit of news. Everybody will wish success to the Italian cooperative shipping association. Why shouldn't it be successful? If it is, the way to real Democracy in Industry will be seen to be wide open and right at hand. Moreover, if it is not successful, what is to be thought of the plan for labor representation in management without any share of ownership?

Why Not a Railroad Employes' Association.

The 31,000 members of the Italian Cooperative Association are not all employed by that association, which only owns five ships. The association expects to buy more ships, but may also take in more members. The main feature is that the ships will be operated and controlled by men who make their living on the sea and whose incomes are mainly from their labor. The class division between owners and employes is done away with.

The cooperative shipping association might serve as a model for an association of railroad employes. The railroad wage bill after the new wage scale goes into effect will be about $3,600,000,000 per year, and if the employes would set aside five per cent. to finance the undertaking they could begin to accumulate an interest in the railroads at the rate of $180,000,000 per year. If this was applied to the purchase of stock rather than bonds they would come quite rapidly into an influential position in the control of the roads, particularly if they concentrated their purchases upon certain systems. The New York Central system has $222,729,300 of stock outstanding, now selling in the market at about $70 per share, or at a valuation of $155,950,510 for the entire stock. A majority would give control and even a respectable minority interest would give representation.

This is enough to show that there is no insuperable obstacle to having the railroad employes become an important factor in railroad ownership and management, and so far from there being objection to it by other shareholders or the public, we are confident that it would be welcomed. The United States Steel Corporation encourages its employes to become stockholders, and several railroad companies have made special efforts to the same end.

Cooperation Proposed for Garment-workers.

It is announced that plans are about to be offered to the garment-workers' unions of America for the establishment of union-owned factories and stores. The first group of factories, it is said, will be established in New York together with a number of union stores, and others will be located in Chicago and Philadelphia. Ample funds will be provided from the treasury of the international union.

There will be skepticism about the outcome of this undertaking among those who doubt that large numbers of people without practical experience can operate a business of this kind successfully, but we regard the movement as a hopeful symptom of the times. It is a constructive plan for dealing with the industrial situation. In so far as it is based upon the opinion that the present employers are making exorbitant profits and rendering little or no service in the industry, there will be something to learn, but it is highly desirable that the facts shall be known and there is no better way to develop them. There is no obstacle to the success of the undertaking except such as the workers may raise among themselves by failure to properly support it and to select the right persons to manage it. If the members will take as much interest in making a success of the business as they have in making a success of their strikes they will accomplish a most desirable revolution in the industry.

It is evident that the general state of ill-feeling and antagonism in industry is reducing output, increasing costs and inflicting hardships upon the great body of the population. All sorts of remedial schemes are proposed which result in nothing but more controversy, but this proposal to have the workers themselves become proprietors is beyond controversy. It offers a kind of socialism which nobody can find fault with and yet ought to satisfy the socialists as well as the trade-unionists. It promises harmony, contentment, efficiency in industry, industrial democracy, better social conditions and good citizenship, all together.

Of course so much that is good is not to be expected all at once under any system which depends upon human co-operation. Some allowance for human frailties and disagreements must be made and plans of this kind are not altogether new. Nevertheless, is not the principle sound, and does it not point the natural line of development? If the management is good and the workers support it success will result; without these conditions it will fail. The achievement of these conditions is a matter of social education and development, worth working for in itself. It is the fundamental condition of success for industrial democracy, for a democracy which mismanages industry is not going to benefit anybody. The resolution to save, to own something, to have a proprietary interest, and to make the business a success in its relations to the public, must develop along with the ambition to manage the business. If the labor organizations can help in developing this resolution and an appreciation of the part which labor can play by thrift and co-operative effort they will be of great service.

In short, if the wage-earners are ready to cooperate, and manage industry for themselves, supplying the required capital and skill, there is no obstacle to prevent them outside of themselves, and it is the thing for them to do. On the other hand if they are not prepared to do this, if they decline to assume any risks or responsibilities, and admit that they need the services of capitalists and managers, then they should assume a

more cooperative attitude toward the latter, and join in good faith in a general effort to make the wage system productive of the largest possible results.

International Chamber of Commerce.

The International Conference of delegates from Chambers of Commerce held in Paris last month seems to have been a meeting well worth while. The first conference so constituted was held in this country at Atlantic City last September, in which 500 delegates from Belgium, Great Britain, France, Italy and the United States participated. The meeting which has just been held in Paris was planned at that time, and it is now proposed to establish a permanent organization, which shall hold an annual convention and to which delegates representing the commercial organizations of other countries shall be admitted.

The purpose is to create a body, less formal and restricted in its deliberations than one constituted by government officials must be, to consider international questions from the standpoint of mutual interests, and endeavor to promote a spirit of good-will and co-operation.

Such bodies of course can be influential only as their declarations appeal to the judgment of the peoples from whom they come, but, representing the leading commercial organizations of the world, it is conceivable that the conferences may develop into large importance. They cannot, of course, negotiate, legislate or agree to anything for their countries in a binding sense, but for that very reason there may be greater freedom of suggestion and discussion than in an official body. The constructive work of the world is not done by governments and they are poorly qualified to do it, either in international or domestic affairs. Indeed, the great danger to orderly and natural social progress is that governments will attempt to do too much; and the best way of preventing or heading off such attempts is by such voluntary action on the part of the leading social forces as will make governmental action unnecessary or only naturally supplemental.

The most important questions of the day are best treated in a tentative, experimental manner, with all parties free, but voluntarily seeking the relations which will best serve the common interests.

Recovery of France.

We have been pleased to refer from time to time in recent months to the many signs of industrial recovery in France. The French people have labored under enormous difficulties in their efforts to get their industries back into normal operation, notably from the shortage of coal—for what can be done in industry without steam power? They have been also under a very distressing handicap in the necessity to import so much of food and raw materials under adverse exchange conditions which made the cost more than double the actual prices in foreign markets. The investments of France in Russia and Southeastern Europe would supply in normal times foreign credits enough to pay for such importations, but they yield nothing now. Notwithstanding these obstacles, the people of France have accomplished results which serve to both hearten themselves and give confidence in their future to others. There never was reason to doubt that the people of France would regain their productive powers and meet their obligations to the last franc, and they are now furnishing proof of it which is convincing even to the most skeptical.

In a recent interview held by a representative of this Bank with the head of one of the great French banks, the latter was asked to dictate a memorandum covering some of the principal facts of the situation, which he did, and his succinct and interesting statement is repeated herewith, as follows:

A Few Data About the French Situation.

In 1913, the total amount of revenue collected by the French budget was 5.100 million francs (1.020 million dollars). At the end of the war the total revenue had reached 9.000 million francs (1.800 million dollars).

But the richest part of France was invaded, a part which in 1913 yielded 800 million francs (160 million dollars).

Consequently, as the 9.000 million francs (1.800 million dollars) were paid by the remainder of the territory, which paid 4.300 million francs (860 million dollars) in 1913, the increase is more than 100%.

This achievement is generally compared in a disparaging spirit with those of other countries during the war.

But it must be remembered:

1. That the invaded territory represented:

14% of the French production in wheat.
47% of the French production in sugar.
55% of the French production in flax.
74% of the French production in coal.
92% of the French production in iron ore.
81% of the French production in iron.
60% in the French production in steel.
20% of the French production in tools, machinery, etc.
80% of the French production in wool products.
70% of the French production in cotton products.
20% of the French Export Trade.

2. That when these districts were restored to France destruction had been wrought, purposely, even to the last moment, in order to cripple French industry and trade for long years to come, amounting to tens of billion of dollars (the exact amount cannot even now be ascertained).

The principal coal mines had been flooded, all equipments destroyed. It will take ten years to put them in shape again. And 8,700,000 acres of land were rendered useless for agriculture; 1,400 miles of standard gauge railroad track, 814 bridges, and 680 miles of waterways had been destroyed.

3. That the French losses in men killed have been 1,350,000, representing 3½% of the total population.

Practically all men between 18 and 47 have been mobilized, i. e., about 25% of the total population.

Out of every 100 mobilized—men of the ages of 19 to 34—57 have been killed.

4. That in spite of the terrible handicap under which the country labored, with huge foreign armies concentrated, equipped, drilled, clothed, fed and armed on French territory—as every American knows—on the day of the Armistice, the whole American army in France did not possess a single field gun which had not been constructed in and supplied by France.

Imagine the United States in the same situation: having lost the coal fields in the Alleghanys, the iron ore of the lakes, some of the largest and richest cities such as Chicago, Cleveland and Pittsburg, having had 3,500,000 men killed, and while struggling for their life on their own soil, helping others to get ready, and devoting all their productive capacity to war material, while others had something over for domestic requirements and investments such as shipbuilding, etc., how would American economic conditions look, under these circumstances, after five years?

The present situation is, of course, a transitory one, but already interesting symptoms can be noted:

(a) An improvement in the trade returns:

French imports during the first 5 months of 1919 amounted to Fr. 11.114 million (2.222 million dollars) and during the first five months of 1920, to Fr. 13,-041 millions (2.608 million dollars).

The exports, during these same periods, were:
1919 Fr. 2.116 million (423 million dollars).
1920 Fr. 5.976 million (1.194 million dollars).

The balance is certainly a very unfavorable one, but it is being slowly and steadily reduced:
In 1919, Fr. 8.998 millions (1.799 million dollars).
In 1920 Fr. 7.071 millions (1.414 million dollars).

The increase in imports is due mainly to raw material for industrial purposes (Fr. 1.724 million or 344 million dollars) while the increase in exports is mainly due to manufactured articles (Fr. 2.244 millions or 448 million dollars).

(b) The yield of taxes and other state income shows a remarkable increase. For the first five months of 1920, the returns have exceeded the estimates by Fr. 1.356 millions (271 million dollars); the increase on the figures of 1919 (with no appreciable changes in the rates) amounts to Fr. 1.646 millions (329 million dollars).

The new taxes voted on June 25, 1920, are estimated to yield about Fr. 8.500 millions a year (1.700 million dollars). This means that the French taxpayers' burden will henceforth be about 486 francs a year ($97.20), exclusive of department and local taxes. We understand that the average yearly payment by the American taxpayer into the Federal treasury is about $49.70.

No other nation in history has undertaken such a drastic reform in taxation at one and the same time.

Since the foregoing was prepared the statement of the foreign trade of France for the full half year ended June 30, 1920, has been made. Imports amounted to 15,629,000,000 francs, an increase of 836,000,000 francs over the same period of 1919, while the exports were 7,780,000,-000 francs, an increase of 5,096,000,000 francs.

It will be seen that France still has great need for credit to enable her to obtain the raw materials for her industries, but with these provided her exports will rapidly come into balance with imports. It is in the general interest that the normal balance shall be restored.

The New Thrift.

"Nothing can take the place of intelligent attention." Any man can repeat after Ben Franklin, "Save, save; take care of the pence and the pounds will take care of themselves."

They won't; they will make themselves wings, if they are not kept busy making money. It's easy to lose money and just as easy to make it; thinking prevents one and does the other. We have been taught that to make money is the gift of the few; it is the natural inheritance of the man or the woman who will think.

When one is really making money, and not merely grabbing what somebody else makes, he is too busy to waste it. What proportion of their incomes do Henry Ford or Edison waste?

To learn how to make money and to keep it working, really to produce, is the message of Bolton Hall's "Thrift." In a fascinating chapter he has made interest interesting. The book was adopted by all branches of the United States Government War Savings and Thrift Bureaus, as well as by the Savings Bank Section of the American Bankers' Association. Nobody will agree with all in that book. Mr. Hall says, "If everybody agreed with me, I might as well write the multiplication table."

But advertisers use it and there is hardly a newspaper now that does not reprint some of its wise and witty sayings, generally without credit; the author says he does not care, because a great teacher once said to him, "I never feel that my pupils really know what I teach them till they tell it to me as a brand-new discovery of their own."

Well, get the book. The American Bankers' Association, 5 Nassau Street, New York, will send it to you for a dollar and if you don't think it is worth it, the author will refund your dollar. Or, get it from the public libraries, nearly all of them have it. At least it will show you the difference between "stingeing" money and making money. The great thought that needs to be put over with the American people now is the service in saving for social advancement.

The Bond Market.

The improvement in the demand for investment securities, noticed in the closing days of June, continued throughout the month of July. A large number of new issues were offered, which included several important industrial and foreign government issues. While the latter were large, ranging in amounts from $20,000,000 to $60,000,000, they were absorbed within a day or two of the announcements of the offerings, and during the month have advanced from one to three points over the original offering prices. This general improvement in the demand for investment securities was further reflected in an advance in the prices of bonds recently publicly offered, particularly the railroad note and equip-

ment issues, most of which are now quoted substantially higher than the original offering prices. It is reported that the present activity was particularly directed to securities bearing a high coupon rate, although there was also considerable improvement in the demand for some of the old high-grade issues.

The feeling among investment houses generally seems to be optimistic regarding a continuance of the improvement in the investment market.

Government and Municipal Bonds.

True to predictions, the Liberty Bond market began to show an improvement the latter part of June and this condition continued at slightly increasing prices until the latter part of July. In addition to the 2½% cumulative sinking fund which became operative on July 1 there was evidence of good investment buying by individuals and savings banks.

During the latter part of the month there were indications of liquidation, particularly in the Fourth 4¼s, which was attributed to the fact that a good many holders of these bonds have grown weary of paying the high money rates necessary to carry their securities in loan accounts and accordingly disposed of them rather than renew their loans beyond the last ninety-day loaning period, which expired on July 19. In consequence, the demand seemed to be somewhat satisfied, and with the exception of the Victory 4¾s there was a slight sagging of prices.

There was considerable improvement in the demand for old United States Government 2s and 4s, which are eligibe for deposit to secure circulation by reason of the desire of some national banks to obtain new currency to move early crops. During the month the Treasury Department announced two new series of Certificates of Indebtedness aggregating $200,000,000, bearing interest at the rate of 5¾%, dated July 15 and maturing in series on January 15, 1921 and March 15, 1921. The latter are acceptable in payment of taxes.

From the foregoing it will be seen that the rate of interest has been reduced ¼ of 1%, the last certificates having been issued at the rate of 6% per annum.

There was a further development in the demand for municipals, particularly for long-term bonds of the larger municipalities. Almost without exception the recent new issues have sold readily at higher levels. The larger issues offered during the last month include:

$1,170,000 Columbus, Ohio, School Dist. 18½-yr. Average 6s on a 5½% basis.
500,000 State of Delaware 40-yr. 4½s, to yield 5.20%.
795,000 Hudson County, N. J., 5-yr. 6s, to yield 5.65%.
900,000 City of Cleveland, Ohio, 50-yr. 5½s, to yield 5.30%.
953,000 City of Cleveland, Ohio, 5½% Bonds, maturing serially—1940-49 maturities to yield 5.35%; 1950-70 maturities to yield 5.30%.
4,000,000 City of Philadelphia, Pa., 20-yr. 5s, at 101¼, to yield 4.90%.
1,500,000 State of Oregon 15-yr. Aver. 4½s, at prices to yield from 5.30% to 5.60%.
12,000,000 State of Pennsylvania 3-yr. 4½s, which were sold to banking institutions at par but apparently have not as yet been re-offered to the public.
975,000 Berks County, Pa., 5% tax-free bonds, at par.

The significant feature in regard to the above-mentioned Cleveland bonds is the fact that they are reported as being a part of a lot of $3,670,000 5½s which failed to attract a single bid at public offering on June 14.

Canadian municipals were fairly active, and during the month the Province of British Columbia sold $1,500,000 5-year 6s to dealers in this country for re-offering at a price to yield about 7¾%.

Foreign Government Issues.

During the first part of the month a much better demand developed for foreign government securities, and still further activity was stimulated by the overwhelming success of the $25,000,000 Swiss Government 20-year 8% bonds which were offered on July 13 at par. The second day after the announcement of the issue sales were reported at over the original offering price, and later the bonds sold as high as 103¼.

Belgian 7½s sold up to 101, as compared with the original offering price of 97¼.

It is believed that the wide distribution of the Swiss bonds and the recent general improvement reflected in other foreign issues will create a much more favorable attitude toward bonds of this class than has existed recently.

Railroad, Corporate and Public Utility Issues.

Railroad financing was conspicuous by its absence, which was accounted for by the fact that it was understood that most of the larger and pressing railroad requirements were taken care of before the first of July, in order to avoid the delay and inconvenience of submitting the new railroad issues to the Interstate Commerce Commission for their approval, which became necessary when the new law went into effect on June 27. The uncertainty of the decision of the Railroad Labor Board on the wage increase and the decision of the Interstate Commerce Commission on the increase in freight rates may also have had some bearing on the lack of railroad financing during July. Practically the only important offering during the month was the $1,500,000 St. Paul Union Depot 3½-year 7% notes at 98½, to yield 7½%. It was reported that this issue was quickly absorbed, and the demand for railroad securities extended to other recent

issues bearing high coupon rates. Louisville & Nashville 7% notes sold up to 101½ and Pennsylvania Railroad 10-year Secured 7s sold up to 103, and practically all the recent 7% equipment issues were in demand at prices substantially over the original offering level.

The market for corporate issues probably showed the greatest amount of activity, the outstanding feature being the quick absorption of the new $60,000,000 Armour & Company 10-year Convertible 7s at 94.84, to yield 7¾% within two days of the original offering. It is understood that small sales predominated, indicating that the issue has been widely distributed, which distribution is further evidenced by the fact that the market advanced immediately and the bonds at the close of the month are in demand around 95¾.

The Armour offering was closely followed by $20,000,000 United States Rubber Company 10-year 7½s at 98¼, to yield 7¾%. This offering was also exceptionally well received and the issue was oversubscribed at 3 o'clock on the day of the announcement of the offering, at which time the subscription books were closed.

Some of the other larger issues during the month include:

$8,000,000 Utah-Idaho Sugar Co. 1st Mtge. Serial 7s, to yield 7¾%.
1,600,000 Carbon Steel Co. 7½% Serial Notes, to yield 8.10%.
3,000,000 West Boylston Mfg. Co. 8% preferred stock, at par.
1,500,000 American Home Furnishers Co. 8% preferred stock, to yield 8.20%.
1,500,000 Lucey Mfg. Co. 10-yr. 8% Conv. Notes, to yield 8.30%.
1,500,000 St. Louis Coke & Chemical Co. 8% serial 1st mtge. notes, to yield 8%.
1,000,000 Edison Electric Appliance Co. 1st mtge. 3-yr. 7s, to yield 7.75%.
10,000,000 Pan-American Petroleum & Transport Co. 1st lien 10-yr. Conv. 7s at 94⅛, to yield 7.80%.
1,000,000 China Mail Steamship Co. 1st mtge. 8% serial gold bonds, to yield 8%.
2,000,000 S. S. White Dental Mfg. Co. 10-yr. 8% gold notes, to yield 8%.

The revival of interest in public utility securities which was noticeable in June continued throughout this month as a result, apparently, of investors coming to a realization of the many existing opportunities to obtain most liberal yields on the best grade securities of this class. A number of important issues have been placed on the market during the month, and it is reported that they have been very well received. In some cases they have been all sold within a few days of the announcement of the offering. The following list comprises some of the larger issues:

$1,500,000 Chicago North Shore & Milwaukee R.R. 10-yr. 7s at 92, to yield 8.20%.
4,000,000 Middle Western Utilities Co. Prior Lien 7% stock at 90, to yield 7.80%.
1,000,000 United Electric Light Co. (Springfield, Mass.), 10-yr. 7s at 96.53, to yield 7½%.
3,500,000 Louisville Gas & Elec. Co. 2½-yr. 8% notes, at 99, to yield 8.45%.
8,000,000 Duquesne Light Co. 1st mtge. & coll. trust 7s, due July 1, 1949, at 85, to yield 7.25%.
1,700,000 Utica Gas & Elec. Co. 5-yr. genl. mtge. 7½s, at 98, to yield 8%.
3,000,000 West Penn Power Co. 1st mtge. 7s, due Mar. 1, 1946, at 94¼, to yield 7.50%.
1,500,000 Benjamin Electric Mfg. Co. Serial 8% gold notes, at par.

The combined average of 40 active corporation issues, as reported by the Wall Street Journal on July 24, was 73.88, compared with 72.87 on June 24, and 84.49 on July 24, 1919.

Discount Rates.

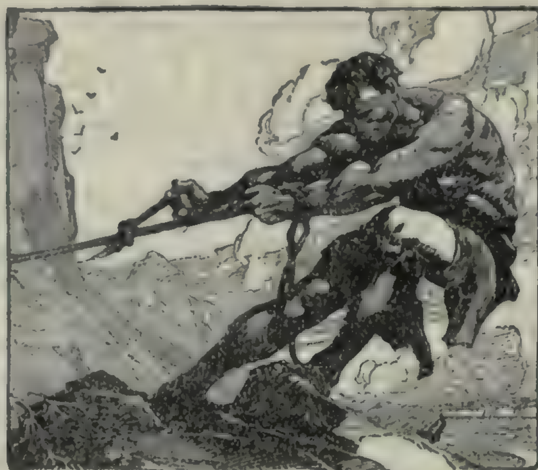
Rates on paper discounted for member banks approved by the Federal Reserve Board and in effect July 26, 1920.

Federal Reserve Banks	Discounted bills maturing within 90 days (including member banks' 15-day collateral notes) secured by		Bankers acceptances maturing within 3 month	Trade acceptances maturing within 90 days	Discounted bills secured otherwise than by Government war obligations, also unsecured, maturing within	
	Treasury certificates of indebtedness	Liberty bonds and Victory notes			90 days (including member banks' 15-day collateral notes)	91 to 180 days (agricultural and live-stock paper)
Boston	5½	6	..	7	7	7
New York	5½	6	6	7	7	7
Philadelphia	*6	5½	5½	6	6	6
Cleveland	5½	5¾	5½	5¾	6	6
Richmond	*6	6	6	6	6	6
Atlanta	*6	5½	5½	6	6	6
Chicago	*6	6	6	7	7	7
St. Louis	†5½	5½	5½	6	6	6
Minneapolis	5½	6	6	6½	7	7
Kansas City	*6	5½	5½	6	6	6
Dallas	*6	5½	5½	6	6	6
San Francisco	*6	6	6	6	6	6

* Discount rate corresponds to interest rate borne by certificates pledged as collateral, with minimum of 5 per cent in the case of Philadelphia, Atlanta, Kansas City and Dallas, and 5½ per cent in the case of Richmond, Chicago and San Francisco.

† 5¼ per cent on paper secured by 5¼ per cent certificates, and 5 per cent on paper secured by 4¾ and 5 per cent certificates.

Note.—Rates shown for Atlanta, St. Louis, Kansas City, and Dallas are normal rates, applying to discounts not in excess of basic lines fixed for each member bank by the Federal Reserve Bank. Rates on discounts in excess of the basic line are subject to a ½ per cent progressive increase for each 25 per cent by which the amount of accommodation extended exceeds the basic line.



1920

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, SEPTEMBER, 1920.

General Business Conditions.

THE general business situation in our opinion has been developing in a satisfactory manner during the past month, although this does not mean that present conditions are all that could be desired. It means that the general trend is toward normal and permanent conditions, and that existing disorders are no greater than might be expected in accomplishing the adjustments that are necessary. The crops are fine, which is a good foundation for domestic business and for international relations. The railroad situation has improved decidedly during the past month, and although far from satisfactory gives promise of gradual betterment. There is a better feeling in banking circles as to the credit situation, although money will remain tight. The recession of industrial activity which is under way is not severe enough to be alarming, but is incidental to finding a lower level of prices. The abundant crops have accomplished a general price reduction in foodstuffs and the raw materials of clothing. With the exception of sugar, which has declined about 10 cents per pound in the last two months, the important food staples are either as low as or lower than a year ago. Meat products are lower, flour and vegetables about the same, fruits lower, coffee less than one-half the price of a year ago. Raw cotton has declined about 10 cents per pound in the last two months, wool even more, hides and leather more, raw silk about 70 per cent in six months. The markets for textile goods have been paralyzed by these declines in raw materials, but declines have taken place in many important staples.

Over the industrial field the general trend of prices is downward, and the pressure is slackening, with an increase of unemployment. An abundance of labor was available for the harvest, and it is probable that some of the labor which has been attracted from the farms during the last five years will now return and remain. The period of acute scarcity both for goods and for labor appears to be over and a competitive situation is developing. It is well that there shall be general recognition of the fact that the upward movement has run its course and that further wage and price advances are untimely.

Prolonged Depression Improbable.

It does not necessarily follow, however, that the very pessimistic prognostications are justified. It was a mistake when the war ended to think that an immediate readjustment upon a lower level of values would be effected; there was a great shortage of goods and a backed up demand for labor which promptly absorbed all that was released from the armies and war industries. Hence the quick revival of business and the rise of wages and prices in 1919. That situation was as abnormal and as temporary in character as the industrial situation of the war time. Numerous signs of relaxation are now appearing, but it is likely to prove as great a mistake now as in the early months of 1919 to think that a period of general and prolonged depression is at hand. There still is a great amount of work in arrears, and an imperative need for construction work and for the production of goods to satisfy the wants of our people as well as of the rest of the world.

As in the case of house-building, this work may be checked by the rising costs but that only means that costs must come down, with the assurance that as they decline activity will revive.

There is a slackening in the demand for our products abroad and an increase in our own importations, both of which changes have an influence for lower prices in our markets.

This downward movement is naturally resisted in many quarters, as various interests struggle to entrench themselves, but in the long run all will do better to show a spirit of cooperation in finding the new level to which the economic forces are tending. It must be remembered that the highest prosperity for every interest is to be found in a state of balanced industry, in which everybody is employed and buying freely of the products of others. Idleness anywhere in the industrial circle affects everybody in that circle unfavorably, and full employment everywhere means that products must be exchangeable on the normal, accustomed, basis. If one class of products falls, the producers of that group will be able to buy less of the products of others unless the latter come down also. The resolution of this or that group as to what they will have for their services amount to little when the buying power of the other groups decline. A wage-earner who

is working only half the time at the old rate may assure himself for a while that his wages have not been reduced, but the truth will eventually find its way home.

The Industrial Situation.

In the textiles the price situation remains unsettled, with business between producers and middlemen to a great extent in a state of suspension, particularly in woolen goods. The woolen mills are generally idle, and but little raw wool is changing hands. Recent government auctions in England indicate that the better grades of wool are fairly well maintained in price, but the markets everywhere are overloaded with the lower grades. In woolen goods as in meats and other things the buying public is wanting the best.

The cotton goods mills have been generally shut down for vacations or running on part time during the past month, but there is a hopeful feeling about reaching a basis upon which production may go on. The trade has been buying from hand to mouth and the lowest prices have been made for goods outside of producers' hands. The mill companies have not proposed any reduction of wage rates, and aside from the decline which has taken place in the raw material say that costs are higher than ever. They are expecting to accept a reduction of profits, but believe that middlemen's stocks are not large and that there will be a revival of business in the near future. We incline to the opinion that the goods will be wanted, and that a compromise of opinions upon prices will be reached. The decline in the price of raw cotton, which is arousing a general protest in the Southern States, is due in part to the improved outlook for the growing crop but even more to the dull condition of the cotton goods market all over the world. No doubt the world needs all the cotton that America can grow, but unfortunately the buying power of a large part of the world's population is very low. In the case of both wool and cotton the only remedy for sellers is in keeping their product until better conditions develop in the trade.

The underwear trade is in a quandary about prices upon goods for next spring delivery. How great has been the rise in cotton goods during the past year is illustrated by the fact that although cotton yarns have declined about 33 1/3 per cent in recent weeks manufacturers say that they are still about 100 per cent above the prices of a year ago, and with the wage advances of the past year they assert that they cannot make knit goods without prices considerably higher than those of the last year.

The shoe industry is suffering from the general inclination of buyers to hold off for lower prices. Hides and leather have had a decline which has put prices down to about what they were in 1916. Dealers are afraid to order normal stocks until satisfied that they have been given the benefit of these reductions, but here also the manufacturer puts in his claim that the raw material is a small factor in his costs, and that labor, the chief item, is higher than a year ago.

General trade reports are good, particularly from the interior, where the good crops have inspired confidence that another year of good business is assured. Exports of wheat since July 1st have been running far ahead of the corresponding weeks of last year, indicating that the foreign demand will readily take this country's surplus. Foreign wheat yields are turning out not quite so good as predicted a few weeks ago.

The Money Market.

The money market apparently has undergone but little change in the last two months. Interest rates have been about the same and the policy of restriction to essential uses has been consistently pursued. The condition of the Federal Reserve banks has shown but little change. On June 4, the total earning assets of the twelve banks was $3,276,626,000; on July 2, $3,271,579,000; on July 30, $3,162,315,000, and on August 27, $3,289,672,000. The member banks reporting to the Federal Reserve Board showed a total of all loans and investments, including re-discounts of $17,081,737,000 on June 4, $16,928,893,000 on July 3, $16,883,715,000 on July 30 and $16,882,540,000 on August 20. Evidently the liquidation which bankers hoped for during the summer months has not been accomplished, and the crop-moving season is now fairly on.

The old-crop wheat has been pretty well cleared out of the southwest and northwest, but a good amount of corn remains in farmers' hands in the middle west. Such bank liquidation as has been accomplished has been offset by new demands, and it remains to be seen whether the crop movement can be effected with the amount of credit already so employed.

A considerable degree of liquidation has taken place in merchandise stocks in the last three months, and the fact that loans are practically unaffected indicates not only that the volume of business in the aggregate is still heavy but that the banks are carrying an unusual amount of loans which represent capital investments. The pressure for greater facilities in all lines of business has resulted in the use of earnings and credit to finance expansion, and it will take time to free the banks of these commitments.

The feeling in banking circles is more settled and confident because of a belief that the spiral movement of wages and prices has been checked, and that this being true the situation is in the way of working itself out. When the people of this country really set themselves to the task of paying their debts they are certain to accomplish something, and nothing will help them to that resolution like falling prices.

Nevertheless, it is probable that the present deadlock over prices will be adjusted early enough to permit a large volume of fall business

to be done, and unless the new price level is lower than now seems likely this trade will require some expansion of bank credit. The bankers expect to supply the credit that is necessary to enable business to be done, but if loans go up sound banking policy will require that interest rates go up. It is not clear why all of the reserve banks have not put the 7 per cent rate into effect.

The French and Argentine gold will help to sustain the reserve percentage, but it is more important to keep down loans than it is to keep up the reserves.

Prices, Wages, and The Economic Law.

At this time, when the industries and exchanges of the whole world are out of balance, and there is great need for patience and cooperation among all classes, ill-feeling is constantly stimulated by hasty and uninformed comment. People write and talk loosely, often without knowledge of the facts they discuss and still more often without intelligent comprehension of the economic laws which are involved. The natural economic law is always working to restore normal conditions, but time is required for its operations, and meanwhile the impatient people are wanting to adopt arbitrary and punitive measures, which usually have all sorts of results not anticipated and which interfere with the natural processes of recovery.

One of the common fallacies is the theory that sellers can make any prices they please, and are wholly responsible for prices, buyers occupying simply a passive position. We have an example of this theory in the presumption that the increase of freight charges will be multiplied several times over as passed on to the consumers of products. Manufacturing and trading would be amazingly easy if business men could have things so much their own way, but experience has shown that under ordinary conditions costs and expenses must be watched closely to enable a business to keep a margin on the right side. In time of scarcity, goods will bring high prices, in conformity with the law of supply and demand and regardless of costs. Prices depend primarily upon the relation between supply and demand. Cost is a factor, as fixing a limit below which they will not be long maintained, because the supply will fall off. Hundreds of producers sell their goods in common markets at substantially the same prices, although their costs may vary much more than the freight charges which enter into them. Freight charges are a common influence and undoubtedly a factor in prices, but prices are the result of all market conditions while freight charges are a minor factor. The efficiency of railway service is a much more important element in prices than the freight charges.

Responsibility of Buyers.

The responsibility of buyers for prices has appeared clearly in recent weeks in the cost of coal. The reserves of coal have not been made good since the strike of last fall, and large consumers, operating from hand to mouth or forced to curtail, have been eager to accumulate stocks. The bulk of the coal has been sold under long-term contracts and at moderate prices, but the effect of short supplies has been exaggerated by consumers who duplicate orders and send representatives into the coal fields to buy up the free supplies. They have created a competitive situation by trying to get coal away from each other. Coal has a greater value to some consumers than to others, and when there is not enough for all the free supplies tend to go to the buyers who will pay the most for it.

Prices inevitably go up under such conditions, and there is more practical sense in recognizing the tendency as due to economic law than in denouncing the sellers as profiteers. It is better to recognize that the economic law in the long run provides the most effective protection to consumers than to try to set up a vague standard which cannot be interpreted or applied with any degree of certainty, and therefore affords no protection at all. There is no better regulation for prices than competitive public bidding in an open unmanipulated market where the full supply is being freely sold.

The real difficulty is not that coal producers are putting up prices, but that the aggregate distribution of coal is insufficient to supply all demands. Somebody's supply must be curtailed, and the consumers determine among themselves by competitive bidding whose it shall be. It is not a satisfactory situation, but it cannot be shown that this is not as good a method of distribution under the circumstances as any other.

The Sugar Situation.

There has been as much talk about profiteering in sugar as upon any other feature of the high prices. Writers have called attention to the fact that the total imports of sugar into the United States during the past year were greater than ever before, as proof that no shortage of sugar existed and that the market was manipulated, but it proves nothing of the kind. It simply indicates that the price was high enough to bring sugar here from all parts of the world; we outbid other countries for it and got it, and probably would not have obtained it at a lower price. The world's crop was short, but we have taken more than our share, and naturally had to pay high for it. Other peoples who have always used less sugar per head than ourselves have used still less this year in order that we might have more.

The sugar situation illustrates very well how speculation which goes beyond proper provision for the future defeats itself. If the price had

been raised early in the year just enough to equalize consumption and supply until the new crop was available, the effect would have been advantageous alike to all parties concerned, but the idea became prevalent that sugar might become unobtainable except at prohibitive prices. Not to speak of people who buy for the purpose of holding a commodity off the market, but only of those who buy in anticipation of their own needs, the prospect of scarcity and higher prices always stimulates the demand. Householders and large consumers bought more freely than usual, and doubtless dealers in many instances anticipated the wants of their trade. It is the business of a dealer to take care of his customers. His trade in other goods depends to some extent on his ability to supply sugar. Besides this class of buying there may have been outside speculation, but it was based upon the belief that sugar was going to be scarce and higher.

There was competition for sugar, a skurrying here and there to find it, with price a secondary consideration. Of course the price went up, not because of unfair or improper action on the part of sellers but mainly because buyers were bound to have what sugar they wanted for themselves whether anybody else had sugar or not.

The apprehensions as to scarcity did not take into proper account the willingness of other countries to go without sugar if they could sell it to the United States at a high price; and so it turned out that sugar came to us from all parts of the world in such quantities that it soon appeared probable that this market had more than it could use. Then the reserve supplies began to come on the market, and the price declined about 10 cents per pound. The hoarders have lost money. The economic law has inflicted as real a penalty as though every offender of low and high degree had been lined up in court and fined according to the number of pounds of sugar he had withdrawn from the market. With regard to the broad application of the punishment, and the amount of the penalty inflicted upon the large offenders, the operations of the attorney-general's staff of assistants make a poor showing in comparison.

The Textile Industries.

The profits of the textile industries have been a subject of critical comment, much of it of the stereotyped kind, based upon the assumption that sellers are wholly responsible for prices, that prices should be based directly upon costs, which is never the case in any industry unless there is a guaranteed profit, and that high profits are necessarily a crime against the public. Conditions in textiles have been unusually favorable to profits, as the European mills were largely shut down and not only the home markets for goods but the markets of other countries looked to the American mills. In cotton goods they were also favored by the fact that foreign markets for raw cotton were largely cut off. Here was a situation in which unless the industry was under one control and the product was apportioned to consumers at a fixed price there was bound to be a rise of prices. There were not enough goods to meet the demand, and the competition of consumers made the prices. An individual producer cannot be expected under such conditions to sell below the market, and it is not an offense economically or morally, to take the price which the economic situation gives him. No one should be asked to make an ineffectual sacrifice—a sacrifice which does not accomplish the purpose in view, and for him to sell his product below the market would not effect the general price level; sold to dealers it probably would effect no saving to consumers.

High Prices Stimulating Production.

The compensation to the public for these high prices comes through another channel, by the greater development of the cotton goods industry, which directly follows. The correspondent of the New York Journal of Commerce, writing from Charlotte, North Carolina, one of the centers of the cotton industry, on April 3, 1920, and summing up the new projects announced in the South in the first three months of this year, said that they exceeded in cost and productive capacity all of the installations of 1919. The dispatch said in part:

> About $40,000,000 will be the amount required for investment to build, equip and provide the community necessities for the new cotton mills and the enlargement of established plants announced since January 1 throughout the cotton growing States. As stated by recent dispatches from this city, the Southern center of textile mill engineering and machinery representation, the activity in cotton mill building is unusually extensive and figures that have been prepared during the week are of exceeding interest in this connection.
>
> The $40,000,000 mentioned will provide mills with a total of 490,000 spindles and 17,000 looms, the spinning machinery to represent $35,000,000 of that amount and the weaving equipment to require $5,000,000. The dollars, the spindles and the looms for the first three months of 1920 exceed the corresponding figures for all of 1919, the looms exceeding all of last year's looms by more than 6,000. North Carolina will have 420,000 spindles, 14,000 looms and $29,000,000 of the announcements.

The construction of these new mills is making a demand upon the labor market, first in the building material industry, then in the machinery-building industry and finally for a permanent supply of workers to operate the mills. At this time the construction work is limited only by the capacity of machinery works to turn out the weaving and spinning machinery, all of the makers being sold up far ahead. This expansion of the cotton goods industry will go on until the production of cotton goods catches up with the demand and profits are brought down to the normal rate. There is no other way of restoring the balance in the cotton goods industry than by the investment of more capital, and the high prices

and large profits are supplying the capital rapidly, whereas lower prices and smaller profits would spread the development over a longer time.

Closing of Mills.

The closing of textile mills and the action of some manufacturers in making sales under a guaranty to protect customers against a decline of prices have excited criticism, in some instances by government officials charged with the task of bringing down prices. The closing of mills is something to be deplored, but upon what theory can a manufacturer be criticised for declining to make goods which the public declines to buy? It is a well known fact that the orders for cloth given some months ago have been to a large extent cancelled because the buyers are afraid either that they cannot resell the goods or that prices will be lower, putting them at a disadvantage with competitors who may buy later. A want of confidence in this trade situation has developed and something like a dead-lock exists, buyers hesitating even to make offers, from fear that they may be too high. They have preferred to wait for a definite trend. The price level is very high as compared with the past, and nobody wants to own goods beyond supplies for immediate trade.

Under these conditions merchants and clothing manufacturers exercise their discretion by withholding orders; labor organizations exercise their discretion by saying that they will not entertain any suggestion to reduce wages, and cloth manufacturers exercise their discretion in declining to make up goods without orders. All of these parties are within their rights. They are in disagreement as to the future of the market, and nobody—certainly no government official—is wise enough to tell them what the course of the market is going to be, or able to insure them against loss in following his advice.

Guaranty of Prices.

Meanwhile, in some instances buyers and manufacturers have come together upon agreements under which the buyers place their orders at given prices with the proviso that if market prices decline certain reductions shall be granted. The buyers are relieved in part or in whole of the risk of price declines and the manufacturer is able to start his machinery. There seems to be no reason why business men should not be permitted to adjust their differences in this manner if they can agree to do so.

The objection is made that manufacturers, having guaranteed prices, will be anxious to maintain them—an exaggeration again of the power of sellers over prices. The desire of manufacturers to maintain high prices is not so influential upon prices as the fact that the mills are running. High prices are more likely to result from stopping production than from any action among manufacturers with production continuing.

It must be remembered that the mill proprietor is always under strong pressure to continue production if he can do so with any assurance against loss, for he suffers a heavy loss every day his machinery is idle. Not only is the large investment earning nothing, but important overhead expenses must go on and the dispersion of a force of experienced employes is likely to be a serious matter. The profits of mill operations depend largely upon a full and constant force.

The situation is plainly a difficult one, but has anybody expected that the task of coming down from these high wage and price levels would be without difficulty? It is bad enough at best but made worse by refusal to take the obvious explanation and by encouraging suspicion and antagonism.

Past Profits.

There are critics who say that as the mills have made large profits in past years, they should now go on with manufacturing, taking the risk of declining markets. That idea is based on the assumption that past profits are on hand in cash. In fact, the profits of the past may not be available to meet losses in the future. If they have been paid out in dividends or used in the construction of new works, or are tied up in the higher inventories and larger volume of credits which the present situation requires, they cannot be used to pay operating expenses and carry goods. And this describes very generally the real situation.

The American Woolen Company is the largest producer of woolen goods, and its president was recently indicted upon the charge of profiteering, but this company has found it necessary this year to sell $20,000,000 of new stock to provide itself with needed working capital. It may be added that this stock was offered to the present shareholders at par, but it is understood that only a small portion was disposed of in this manner, the underwriters getting the major portion. The shares are now selling in the open market at about 80.

The state of bank loans shows that notwithstanding the profits that have been made the business community is borrowing far more heavily than at any time in the past. All financial authorities are agreed that the banks have gone about to the limit of prudence in the creation of credit. It would be unsafe and in opposition to the general interest for the banks to go on increasing their loans in order that manufacturers may produce goods which cannot be sold at prevailing prices, or which they will have to sell at a loss. The banks are custodians of the common credit supply, and will not knowingly lend it for the production of goods at a loss. It is not in the

general interest that credit shall be extended for this purpose, or that any capital which has been accumulated shall be wasted.

It would be wasted if used to support a price level so unnaturally high that the demand for goods was curtailed. The market must find its normal level. We do not say where that level is, nobody knows; the public determines that by the freedom with which it takes the goods. When it will take all the goods that can be produced at a high level of prices it is idle to argue for lower prices, but when the full production cannot be sold, and machinery and workers are idle it is time to consider the advisability of lowering costs and prices, particularly if that is the general trend of commodities.

The Economic Value of Speculation.

The public naturally objects to paying high prices. It usually charges them to greed and deliberate design, but the fundamental causes are deeper, and usually a price rise is not only due to natural conditions, but serves the public interests. If there is an actual shortage, it is important that the supply be conserved by economy in consumption and by shifting the demand to substitutes, and the most effective influence for accomplishing this is a rising price. A person who speculates for a rise in necessaries is usually regarded as a public enemy, but a speculator profits only by anticipating conditions, and his operations tend on the whole to equalize conditions. The operations of a speculator who foresees a shortage and pushes up the price far in advance of the exhaustion of the supply are serviceable, because they promote economy in use early enough to be effective in equalizing consumption and stabilizing the price over the entire period for which the supply must serve. The idea that a low price can be maintained on a short supply, and everybody provided for as usual, is of course a fallacy. The hardship is not imposed by the speculator; it results from the short supply, and would be felt eventually and with more extreme fluctuations of price if no one foresaw it or attempted to provide for it. If the speculator puts the price too high and curtails consumption too much he will lose money by it. His operations will be most successful for himself if they regulate consumption so nicely that the available supply is spread uniformly over the entire period for which it must serve, at a uniform price, and without any supply left over, and that arrangement is advantageous to the consuming public.

Stabilizing Prices.

No speculator ever gains by holding goods back from the market unless he finally sells them, and the longer he holds them back, at prices which curtail consumption and stimulate production the more likely he is to lose money.

There is talk that the farmers' organizations will undertake to manage marketing so as to accomplish a gradual distribution of crops throughout the year at a uniform price, but when the uncertainties that attend upon production are taken into account it will be seen that there is bound to be a large element of speculation in providing the needed supply from year to year. The crop prospects change from week to week throughout the growing season, and prices fluctuate with them. It may well be asked whether any scheme to fully stabilize prices is not chimerical. It would have to be backed by a greater amount of ready capital than can likely be placed at the command of any board of managers. It may be doubted whether any better arrangement for promoting stability in the markets can be provided than a free, open market, which affords a concensus of world opinion from day to day.

Effect of Rising Prices Upon Production.

Besides the effect of a rising price in conserving an existing supply there is the effect in stimulating an increased production. It not only offers an incentive, but provides the means, the capital, necessary for enlarged production. Regulations may control the distribution of an existing supply, but if the situation is one of scarcity the existing supply obviously is insufficient; permanent relief requires increased production and probably requires an increased investment of capital, which is not encouraged by official price-fixing. The giving of price-fixing authority to public officials tends to influence investments into other channels, and thus make a scarcity permanent. The paper industry is suffering now from the price-fixing which has been going on for several years, and there will be no relief until production is increased by heavy investments. The present controversy over rents has the effect of deterring many persons from house-building. People prefer to place their investments where they will not be subject to controversy or to the judgment of anybody whom the necessities of politics may place in public office.

High Interest Rates.

The idea that sellers alone make prices is uppermost again in the complaint about interest rates, and particularly the criticisms of high rates for call money in New York. As we have heretofore explained, the call money market is supplied with funds, owned by individuals, corporations and banks, which are temporarily available but which the owners do not wish to tie up for a definite time. In the aggregate there is always a large amount of money waiting for some purpose, but from day to day unemployed; this is the call money fund, but naturally it is shifting and fluctuating continually. It comes from all parts of the country and important sums from the Canadian centers. The loans are secured by collateral and made through brokers, upon the express condi-

tion that they are payable on demand. There are no other relations between borrowers and lenders. The lenders wish to keep their funds absolutely at their command, and the borrowers understand the terms, but depend upon their ability to obtain accommodations elsewhere by raising the rate if necessary. It is a theory in the call market that money can always be had at some rate. Sometimes call money is obtained at less than the prevailing rate for time money and that has been the case during most of the past month; sometimes it commands more, depending upon the state of supply and demand.

Withdrawal of Funds.

The lenders at call withdraw their funds as they want them for other uses, and when the withdrawals exceed the new offerings the interest rate naturally goes up, which is the method by which more funds are attracted. If the pinch is severe the money committee of the Stock Exchange calls upon the local banks for a fund to relieve the situation, but these loans are always paid off the next day.

These are the conditions under which call rates have occasionally reached figures that are pronounced extortionate and oppressive, and said to be destructive of property values.

Some of the leading banks of New York have been lending no money at the stock exchange except as called upon by the money committee to supply a quota to the fund for stabilizing the situation. Banks which do not lend in the call market at all can hardly be criticised for the high rates, and yet they contribute to them even more than the banks which lend at the high rates, for lending at any rate gives some relief to the situation.

Borrowers Make Interest Rates.

The truth is that the borrowing public is responsible for the high rates for money, just as the buying public is responsible for the high prices for coal, sugar and cotton goods. The public must learn to respect the law of supply and demand and govern individual affairs accordingly. High interest rates like high prices signify that demand is out-running supply, and if the supply cannot be increased the demand must be curtailed. The volume of money and credit cannot be made to satisfy all possible demands by the public for purchasing power; the public must restrict its wants within an aggregate that is consistent with a sound state of credit, or if it fails to do so take the consequences. A high interest rate is the mildest effective means of holding demands in check.

Moreover, in the general need for greater production it should not be overlooked that the fundamental need is for more capital, and that this affords an economic justification for both higher profits and higher interest rates. These are the chief means by which new capital is created. There is as great a need at this time for more banking capital as for more of anything else, and no reason for limiting banking profits in favor of other profits, or in favor of credit expansion.

The real cause of the high prices has been the waste of capital and the attempt to make credit do instead of capital. There will be no correction of this situation except as capital is restored to normal relations with industry and credit. The protest against high prices and high interest rates is simply the instinctive but futile protest against the grim necessity of saving to make good the expenditures upon the war. Of course the cost falls upon consumers at last; but was anything ever saved except at the expense of consumption?

The Relation of Capital to Prices.

The public does not like to pay high prices, particularly when it believes that they yield large profits, and yet, as already indicated, profits afford the most certain means by which prices are reduced. The real social problem of the present time is how to bring home to the average man the fact that an abundant supply of all the things that he is wanting is dependent upon the accumulation of capital, not necessarily in his own hands, but in any hands that will use it effectively in production.

The fundamental reason for the high prices, and that increasing wages do not overtake rising prices, is that there is a scarcity of capital, or in other words a scarcity of the means of production and distribution. It is well understood that the limiting condition upon industry in this country today is the state of the railroads. They have not been kept up to the growth of the country. This means that thousands of men must work for years, building cars, locomotives and switch tracks to get the railroads into shape to handle the traffic that is offered. These men must be paid for this work, the money amounting to billions of dollars must be ready as they do their work, and must come from an available surplus, accumulated by somebody. So also billions of capital are wanted for the building of houses, and for other construction work, needed to provide for the comfort of the population. Of all the many proposals offered for improving the living conditions of the people, there is not one which does not require capital; they are all conditioned upon somebody having a surplus which can be obtained either by inducing him to give or invest, or by taxation. Not everybody recognizes that even taxation requires that somebody shall have acquired a surplus, but that is evidently the case.

Impairment of Natural Wealth.

With the growth of population and the impairment of supplies of natural wealth, it becomes more necessary that wealth in the form of productive equipment shall be increased.

There was a time when fuel in the form of timber was plentiful in nearly all sections of this country, when building materials were cheap for the same reason, when cattle were pastured on the public lands and all food products and clothing materials were cheap because land could be had for nothing. That time has gone by. Steel and cement must be manufactured to take the place of timber, costly machinery must be used on the farms to reduce the labor cost of production, large investments must be made to cheapen the cost of transportation, and on every hand we must strive to make good the loss of natural wealth by improved industrial processes, or the conditions of life for the millions will grow steadily harder as population increases. And this improvement of industrial processes is usually by means of costly equipment, requiring capital investments.

Every agency that contributes to production is in demand; labor is in great demand, and wage rates have risen in consequence; capital also is in demand and its wages have risen. Every kind of machinery that will assist in production is in demand, and it is only as these agencies of production are multiplied or made more productive that the supply of necessaries and comforts for the population can be increased.

Where Capital Supplies Are Falling Off.

The great numbers of people who own railroad bonds and stocks, and who constitute an important section of the investing public, are getting no more income from their holdings than they had before the war, but after paying their own increased living expenses and taxes they have less to invest in railroad improvements, and what they do invest will buy less than one-half as much in railroad equipment. Where are the new investors who will supply the rest of the capital needed for railroad rehabilitation?

At Cleveland recently it was found necessary to advance the wages of street car employes, and the operating company asked permission to raise fares not only to pay the increased wages but to raise the dividends on the investment from 6 to 7 per cent. A referendum was taken upon the dividend rate, and the public refused to allow the increase. It would consent to an increase of wages but not to an increase of dividends, doubtless because it did not see that the public had any interest in dividends.

The owners of houses have not as a rule been able to advance rents to an extent parallel to the increase in building costs. It is argued that since their houses were built before the rise, they are not entitled to such an advance. But maintenance expenses have increased, taxes have increased, their own living expenses have increased, and they have less of capital savings with which to build more houses than before. Who is going to supply the new capital for house-building which they have supplied heretofore?

The List of Profiteers.

There is a great outcry against the profiteers and lists have been published containing the names of corporations which have made large profits. These are usually producing corporations who sell their products on the public market at the going market prices, and who have little control over the prices finally paid by the public. Scarcity makes the price-level and nothing can cure the scarcity but the investment of new capital to increase production. The profits complained of represent the automatic workings of economic law by which new capital is accumulated to meet such needs and nominal profits must be twice as high as formerly in order to make a corresponding saving of real capital.

In many cases these profits have never reached the stockholders, being required as additional working capital to handle the business, and more capital has been raised from the public market. The shares of most of these companies may be bought at very moderate figures. The case of the American Woolen Company has been referred to elsewhere; the American Smelting & Refining Company is another corporation which has been listed among the profiteers, but at no time since the beginning of the war has it paid more than 6 per cent in dividends annually, while the present rate is 4 per cent, and its $100 shares are selling in the market at about $55.

King Upon the Services of Capital and Skilled Management.

Professor W. I. King, author of the "Wealth and Income of the People of the United States," in a recent article, entitled "Why Wages Are High or Low," refers to the common assumption that the income accruing to the owners of capital is lost to the wage-earners and general public. He discusses it as follows:

"One of the most common errors of students in this field is to assume that the share of the national income paid for the use of property is entirely lost to the wage-earners. As a matter of fact, this is far from being the case. Everyone knows that many skilled workers and a still larger proportion of the salaried classes desire some income from property. The point which is commonly overlooked, however, is that the wealthy property owners consume but a small fraction of their total income. The rest of it is invested in industry, thus equipping each worker better and making him more effective. As a result, the products of industry grow more abundant and cheaper and the purchasing power of the laborer's wage is thereby increased. Thus, the income which the property owner invests this year increases the well-being of the laboring classes of next year. If this share of the national dividend now saved and invested by the wealthy were instead paid directly to the laboring classes as wages, the chances are that most of it would be used for current needs, but little being saved. As a result, the laborers of today would gain, but the laborers of the future would receive reduced incomes because of the change.

"Large property owners, while not usually wage-earners, are frequently, nevertheless, because of their organizing and managerial ability, among the most effective laborers in the industrial world. A considerable reward

is necessary in order to induce them to exert their best efforts and thus to maintain productive efficiency. It appears, therefore, that the only additional fraction of the national dividend which could be safely turned over to labor for current wages is that part used by the rich in the purchase of needless luxuries. While this is an immense sum in the aggregate, it is still not large enough materially to enhance the average wage rate.

"The ordinary wage-earners of Russia have made the most vigorous effort in recent history to profit by the confiscation of the property of the well-to-do and wealthy classes. The resulting paralysis of industry, with the dire poverty and even starvation resulting for those very working classes that the confiscation was intended to benefit, are facts too well known to require elaboration. It is clear that the workingman cannot with safety destroy the equipment both tangible and intangible which aids him in production, and that, without the organizing ability of the captains of industry and the savings of the propertied classes, the equipment needed for production is hopelessly inadequate."

Foreign Trade and Exchange.

Sterling exchange has had a heavy decline during the month of August, and all the European exchanges were carried down by the movement. The table is as follows:

	Unit Value	Rate in cents July 26	Rate in cents Aug. 26	Change from par	Depreciation
Canada	1.00	.88	.8887	.1113	11.13
Germany	.2382	.0245	.0210	.2172	91.18
taly	.1930	.0555	.0467	.1463	75.80
Belgium	.1930	.0824	.0755	.1175	60.88
France	.1930	.0775	.0706	.1224	63.42
England	4.8665	3.7950	3.59	1.2765	26.23
Switzerland	.1930	.1718	.1655	.0275	14.25
Holland	.4020	.3450	.3175	.0845	21.02
Denmark	.2680	.1620	.1420	.1260	47.01
Norway	.2680	.1625	.1420	.1260	47.01
Sweden	.2680	.2155	.2030	.0650	24.25
Spain	.1930	.1567	.1512	.0418	21.66
Argentine	.9648	.8875	.8475	.1173	12.16
Japan	.4985	.5150	.5150	.0165	*3.310

* Premium.

The most important developments of the month touching the exchange situation have been the arrival of the French Commissioner with authority to make arrangements for the payment of the French portion of the Anglo-French loan, together with the arrival of a shipment of gold from Paris, to apply thereon, and the announcement from Buenos Aires that the Argentine government will resume the sale of drafts against its remaining credit in New York, understood to be about $23,000,000, to meet the requirements for exchange on this country. The negotiations of the French Commissioner include the making of a loan, probably for $100,000,000, the terms of which are not yet determined. It is understood that gold shipments will amount to about $50,000,000 and that exchange for the remainder due on the Anglo-French loan has been acquired.

It is explained at Buenos Aires that the action of the Argentine government in discontinuing the sale of drafts on its credit in New York was due to its unwillingness to facilitate arbitrage transactions, which had been carried on. It will take steps to prevent the use of its accommodations in this manner.

The movement of gold from this country to Japan continues on a considerable scale, and silver shipments to Asia have been resumed in moderate amounts. The price of foreign silver is now fluctuating about $1.00 per ounce, the price at which the United States government is buying domestic silver.

Peruvian bankers have taken several million dollars in gold of late to strengthen reserves in that country.

Railroad Congestion.

Some idea of the cost to the public of the state of congestion upon the railroads which has been common throughout the last six months may be gathered from this incident, reported by the People's National Bank of Pittsburg:

A manufacturer in this district of high-grade steel products, which are usually shipped in box cars, was forced to the expedient of using lumber and tarred paper for constructing a rude protection over flat cars (the only kind at times available during the past month) for making shipments to urgent consumers whose operations otherwise would have been suspended. At the current cost of lumber and labor this manufacturer estimated the additional expense at $50 or more per car thus protected. The cost was divided between buyer and seller, and ultimately absorbed by the consumer of the finished product. Not alone was the cost of the commodity increased, but at this time when labor is scarce a portion of the available supply was utilized in the manner described when otherwise it might have been more advantageously employed for the general benefit. In other words, the carpenters, laborers and materials employed in building the temporary protective covering for flat cars might have been employed in work of a more permanent character for the relief of the dwelling-house shortage which remains acute in all industrial districts.

Here is another illustration which may be duplicated in a greater or lesser degree in the experience of various manufacturers: At one time during the month just closed a local steel company had nearly a hundred carloads of high grade finished material piled up on its warehouse and shop floors awaiting shipment for which it could not obtain box cars. Being unable to invoice the goods, the capital cost of the merchandise, instead of being distributed among many consignees, had to be borne by the producer for a longer period than could have been foreseen when orders were booked. The twofold effect was to reduce the maker's profits and add to his costs the additional financial credits required to carry the burden until delivery was possible.

Expenditures of this kind are commended to the attention of the persons who think that the increase of freight charges will add to the existing high prices. Other things being the same, an increase of freight charges tends to raise the general level of prices, but good railroad service is cheaper than poor railroad service.

The Labor Issue.

Recent decisions by a United States Court and the Supreme Court of the State of New York have again stated very plainly the obligation of a common carrier to serve all people without discrimination. In the latest case the question was whether transportation agencies might discriminate against goods upon which union labor had declared a boycott, and the courts held not

only that the transportation company must not discriminate, but that the unions must not attempt to coerce the transportation companies to violate the law.

Lumber dealers in Brooklyn against whom a strike had been declared employed non-union workmen, at which the unionized truck-drivers refused to handle lumber from the said company. Non-union truckdrivers were obtained, and lumber delivered at the piers of a steamship company, for overseas shipment, whereupon the unionized employes of this company threatened to strike if the lumber was received, and the steamship officials yielded, thus denying transportation facilities to the boycotted lumber.

Complaint was entered against the steamship company and the striking unions, alleging that as a common carrier the shipping company was obliged to accept freight from the public without discrimination. The case came before Judge Fawcett of the New York Supreme Court, who sustained the complaint. He said, in part:

"The papers show that all of the parties are engaged in a combination having for its object the exclusion of plaintiff's goods from transportation by the defendant common carriers, both where plaintiff is a shipper and where its customers act as shippers. If this combination is lawful it is impossible to truck in New York and vicinity except on such terms as the unions permit. The defendants are engaged in a combination to gain control of transportation and blockade the channels of trade against all but union goods. Such a combination to exclude open shop merchandise from the channels of trade and the markets of the nation is a conspiracy against public welfare and deprives the public of their sovereign right of choice to purchase what they see fit.

"The representatives of the companies who decline to furnish services are violating the law, and the employers where strikes are threatened to compel them to violate the law are engaged in an illegal combination. The carriers have aided and encouraged the unions by seeking to evade their duties to handle plaintiff's goods without discrimination.

"While a man may enter any vocation he chooses, yet if he selects a field indissolubly linked with the rights of the public, such as a common carrier, he must subserve his own rights to that of the public welfare.

"The combination violates the United States Shipping act and Section 5440 of the Revised Statutes. Under these statutes a refusal of the carriers to transport the plaintiff's merchandise is a crime, and the unions are engaged in an unlawful conspiracy when they induce, aid or abet the carriers in committing the same, and it is no excuse to the carriers that the employees threaten to strike."

This is a clear statement of sound principles. It makes no attack on labor organizations but defines the limit beyond which no organization, whether of wage-earners or employers, may go. The stand taken is for the protection of society against discrimination in the service of transportation, upon any excuse, and places the right of the public to have transportation above the right of strikers to coerce the transportation company.

The interests of the wage-earning class are not in conflict with the interests of the general public. The wage-earners are interested first of all in an orderly state of society, in which industry can be carried on. The interests of labor never can be advanced by methods which would involve the community in constant turmoil, or put it in the power of small groups outside of all authority to say who shall have transportation service and who must go without it. There is no liberty or security in society unless secured by law, and the struggle of all the ages has been to make men equal before the law.

There is no labor "issue" unless the unions seek to place the authority of their organizations above the law of the land. They have their rights and their place in the social organization, but they have not yet supplanted the constitutional law-making bodies.

The desire to rule by force, to disregard the rights of others, is a sign that those who hold it are not qualified to exercise unrestrained power. In a free society, based upon one vote for every person and majority rule, all who seek to exercise power by fraud or force are enemies of the public peace. The law, made and enforced through the constitutional agencies, should be respected and obeyed. Otherwise democracy is abandoned and society goes back to the rule of the strongest.

The British Labor Threat.

In Great Britain organized labor recently issued a pronouncement that in case the British government made war upon the Soviet government of Russia, a general strike would be called in Great Britain. The British government has indicated no purpose to make war on the Soviet government, unless, possibly, in defense of the independence of Poland. Obviously, it is a grave question how the interests of England and of the whole world might be affected if Russia should overrun Poland and establish an alliance with Germany. But whatever the policy of the Parliamentary government may be it is the government lawfully elected by the people of the British nation. The laws provide an orderly method by which the Parliament is made responsive to the public will, but this declaration amounts to an attempt by the labor organizations to impose their will upon the country without an election. It is an attempt to transfer the government of the nation from the Parliament to the labor organizations.

It is impossible to see how the intelligent members of organized labor can wish to raise an issue of this kind. They must know that it is foredoomed to failure. They can throw society into disorder, but labor can gain nothing from mere disorder, and order never can be re-established upon any other basis than that of equal rights. The world has progressed too far to abandon that principle. The labor leaders who are making this attempt to seize authority are about 500 years behind the times. They have just reached the stage of the early champions of religious liberty, who wanted it for themselves but were unwilling to allow it to any who disagreed with them.

The Bond Market.

The month of August is usually the dullest bond month in the year, and the past month has run true to form, although prices generally have been firm and in some departments a strong undertone has developed which would seem to indicate an improving bond market during the Fall. Very few new issues were offered, but they met with success. The dealers of the country have apparently taken advantage of the absence of new issues, and have cleaned up their odd lots. It is interesting to compare the yields obtainable from bond investments over a period of years, for at the present time securities are the cheapest commodity on the market. In 1903 the yield from Municipals was 3.31, Rails 4.10, Utilities 4.63, Industrials 5.69. In 1910 Municipals 4.00, Rails 4.21, Utilities 4.79, Industrials 5.25. In 1920 Municipals 5.07, Rails 6.88, Utilities 7.51, Industrials 7.56. Investors are naturally asking their bankers whether the present is the time to make purchases or whether prices are going lower. The ready absorption of new issues at present levels during the past summer seems to indicate that the general public has come to the conclusion that if prices are not at their low level, securities nevertheless are an attractive purchase. The trend of sentiment seems to favor longer term securities, and the discerning investor today is endeavoring to obtain a high yield over a long period of years, with the result that seasoned issues with a life of twenty years or more, have been removed from the market in substantial blocks.

Foreign Government issues were slightly irregular during the month as a result of the Polish situation. There have been rumors of negotiations with foreign governments and the most imminent business is probably a new French loan.

Government and Municipal Bonds.

The Government bond market was fairly active throughout the month, with minor fluctuations. For the most part the Liberty issues were heavy after the opening of the month. The New York Stock Exchange has increased the commissions on Liberty bonds and Victory notes to 1/16 of 1%. The majority of the investment bankers, however, are still charging 1/8 of 1%, as this has been decided as the minimum amount which will cover expenses, particularly on out of town transactions where shipping charges are involved. Stock Exchange commissions on other standard issues have been increased from $12.50 per $10,000 to $15.00.

A new issue of $10,000,000 Philippine Government One-Year 4% Certificates were sold during the month to a syndicate of New York bankers and were offered to the public at 97⅜ and interest, to yield 6¾%.

The municipal market continued active with many new offerings. It is reported that during the first seven months of this year new municipal issues were offered to an amount of $412,324,450 compared with $384,537,802 during the same period last year. Investors seem to favor the longer term issues and prices have accordingly advanced to a point where the yields of the better known cities are averaging about 5% to 5.25% compared with 5.25% to 5.50% last month. The larger municipal issues of the month include:

$8,473,000	Detroit 5% & 6% bonds yielding from 5.25% to 6%.
3,880,000	City of Syracuse, N. Y., 5¼% Cpn., bonds yielding from 5% to 5.90%.
3,674,000	Jersey City 5½%-6%, yielding from 5.25% to 5.85%.
2,580,000	Cincinnati 6% bonds yielding 5⅝%.
2,475,000	Dallas 5% bonds yielding 5½% and 6%.
1,165,000	Cincinnati 6% bonds yielding from 5.30% to 5.35%.
1,500,000	Oregon 4½% bonds yielding 5.25% to 5.65%.

New York bankers offered a block of $888,000 City of New York 4¼% bonds at 83½ and interest, yielding 5.20%.

The following Canadian issues were offered:

$5,000,000	Province of Ontario 6% bonds to yield 6.23%.
3,000,000	Province of British Columbia 6% bonds to yield 7¾%.
2,000,000	Province of Alberta 6% bonds at prices to yield 7.50%.
1,200,000	Province of Manitoba 6% bonds to yield 7¾%.
600,000	City of Winnipeg 6% bonds to yield 6¼%.
500,000	Province of Nova Scotia 6% bonds to yield 7.35%.

Corporate Issues.

The month opened with the decision of the Interstate Commerce Commission granting substantial increases in freight and passenger rates. On the morning after the announcement, the Stock Exchange witnessed a rather excited market in railroad stock and semi-speculative railroad bonds which, however, was short lived. Throughout the balance of the month the bond market continued dull until the offering of $25,000,000 New York Central Ten-Year 7% Secured bonds at 100 and interest. The subscription books were open a day and a half and the issue was largely over-subscribed and has since enjoyed an active market on the Curb. Toward the close of the month a strong inquiry developed for semi-speculative and second-grade rails, with the result that advances in some of the more popular issues were from two to six points.

The following week a group of Chicago bankers offered $15,000,000 Morris & Company Ten-Year 7½% bonds at 98¼ and interest, to yield 7¾%. The books were open one day and the issue was over-subscribed.

Public utilities as a class have maintained a fair market during the month, the longer term, seasoned issues being in particular demand.

1920

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, OCTOBER, 1920.

General Business Conditions.

GENERAL business is moving along in a reasonably satisfactory manner. Everybody is not pleased, but the fundamental conditions are good. A month ago we could report that a good crop of the small grains had been harvested, but the greatest grain crop that of corn, had not matured and owing to its late start was in danger of frost. The most notable development of the past month has been the maturing of this crop, now estimated at about 3,150,000,000 bushels. It means much to the country, although the farmer's feeling of gratification is naturally tempered by the fact that the price of corn, which at the middle of June was about $1.80 per bushel, has fallen for December delivery to below $1.00 per bushel. It is the first time since February of 1917 that corn in Chicago has sold under $1.00 per bushel. The high point was $2.36 in August 1917. The decline has been due to the falling off in the exports of meats and to the big crop now in sight. It is calculated to make the farmer feel that he has contributed to his own undoing. It is not strange that he reads with some feeling of resentment of the various efforts to sustain prices and curtail production in other lines, of textile mills running part time and labor organizations resolving in favor of a six-hour day. Obviously he is not getting fair and reciprocal service from the other industries with which he is exchanging products, but the true remedy is not in reducing the production of foodstuffs but in increasing the production of other things, so that the prices of what the farmer buys will decline likewise.

Wheat Crop and Exports.

The wheat crop is considerably under the expectations of two months ago. The winter crop west of the Mississippi river was excellent in amount and quality, but the acreage and yield was reduced in states east of the river, and the crop of spring planting in the northwest was below the early promise. The government's estimate for the total yield is now 770,000,000 bushels. The Canadian crop, however, government estimate, is 289,500,000 bushels, which is 96,000,000 above last year, being an average of 16½ bushels per acre, against 9½ last year, and the quality is fine. Including the carry-over, the amount available for export in the United States and Canada is about the same as last year. The foreign trade has been buying freely. Although the crop in this country is being marketed slowly, Bradstreets reports 122,489,000 bushels, including the equivalent of flour, exported in the twelve weeks ended September 23, against 81,783,000 in the same weeks of last year. These figures include old wheat, but we have exported fully one-half of all we can spare in the year to July 1, 1921.

The price of wheat now turns on the crop in the countries of the southern hemisphere and India. Europe imported nearly 600,000,000 bushels last year and will require nearly as much in the year to come. The United States and Canada can supply about 400,000,000 bushels, possibly a little more. The Argentine and Australian crops are progressing well to date, but both countries are subject to droughts and if either should go wrong it would send prices up. The price has had a heavy decline in the last week and closed the month at about the lowest figures of the year.

The situation in the wheat and flour markets has been abnormal, in that prices for wheat for future delivery have been 25 to 45 cents per bushel below spot delivery. December is below spot and October and March are below December, which on the surface would seem to indicate that the longer wheat is held the less it will be worth. Under ordinary conditions wheat would be rushed to market and bring the cash delivery below the futures, but the car situation and unwillingness of farmers to take lower prices have kept the movement down to no more than the current demand would absorb.

The Market for Flour.

No one has wanted to buy wheat except for immediate export or consumption. While we have seen dealers in woolen and cotton goods and shoes unwilling to lay in stocks, and factories unwilling to make up goods, because they feared a price decline, a similar situation has existed in wheat and flour. Elevator companies have been unable to buy wheat from farmers and make hedge sales at a margin to cover

carrying charges and profits; millers have been unable to sell flour for future delivery and have been grinding only to fill orders; flour dealers have bought flour only for day to day distribution. The principal milling centers have reported operations at only about one-half capacity, and the primary wheat markets have little more grain than at the beginning of the season. This is one reason why the demand for credit for crop-moving purposes has been comparatively small to date. The situation furnishes another illustration of the universal rule that nobody will knowingly make up or buy goods to carry as stock in the face of a falling market. No amount of talk about the iniquity of curtailing production will alter anybody's policy in this respect.

Another anomaly in the situation is the fact that wheat is quoted in Canadian markets above current prices on this side of the line, and at the same time Canadian wheat and flour are both moving this way. Thus Winnipeg is above Minneapolis while normally the reverse is true. This is due in part, probably, to the premium on the United States' dollar in Canada. The shipper of either wheat or flour to this country can sell his draft in Canada at a premium of about ten per cent, which yields about the same result as though there was a bounty on exports to the United States. Another reason for the higher Winnipeg price is that Canadian No. 1 Northern is of very fine grade this year, containing more gluten than our own wheat of the same nominal grade, and American millers are buying it, to mix with the native wheat.

The Cotton Situation.

The cotton crop has lost ground during the last month, from too much rain, and the outlook now is for not much over 12,000,000 bales. Domestic consumption and exports for the last crop year aggregated 13,623,692 bales. The carry-over August 1, 1920, in consuming establishments and public storage was 3,412,989 bales. This year's crop had a bad start and about June 1st the promise was thought to be for not over 10,000,000 bales, but it improved in June and July until estimates of 13,000,000 bales were common. On the strength of this change and because of diminished consumption by the mills of this country and Europe, and dull trade in all textile markets, the price has declined from above 40 cents per pound spot to about 25 cents, with December delivery 2 cents lower. Deliveries in later months are still lower, showing the same phenomenon as the wheat market, and indicating a lack of faith in future developments.

Market Influences.

As usual when cotton declines much is said in the South about the vicious influence of short-selling, but the talk among people who are familiar with the market is that the selling orders are mainly from the South, and probably represent hedging operations, that is, sales against new crop purchases. But whether they are hedge-sales or short-sales the trouble with the market is a lack of buying orders. Instead of furnishing proof of the evil of speculation it shows the necessity for speculation. The demand for immediate consumption is very slack; trade in cotton goods is poor; buyers are wanted with confidence in the future of cotton who will take quantities off the market and carry them until the consumptive demand requires them. That is the function of legitimate speculation. It is always unfortunate to have the price of a staple commodity like cotton or wheat go below a price that is fairly remunerative to the producer, for the effect is to discourage production and make prices unduly high at a later time. And yet it is idle to blame anybody for not buying cotton or wheat when they do not want it or lack confidence in the future price. The value of cotton is involved in the general restoration of industry over the world, so that people can buy cotton cloth. The state of turmoil in many countries, with a general strike threatened in England, factories in Italy in the possession of the wage-earners with the owners barred from entrance, war between Russia and Poland, etc., has not been favorable to the value of cotton.

A well-known Liverpool authority in the cotton trade writes as follows:

> The market is almost completely under the dominion of the unsettled financial, political, and labour situation. As these improve or get worse (particularly the coal strike menace) prices will advance or decline. Political conditions on the Continent are unsatisfactory. The expansion in consumption which might naturally be expected, looks unlikely at present at any rate. Poland, Czechoslovakia, and Russia look even less hopeful than last season.

The Asiatic Trade.

While this state of social unrest undoubtedly affects speculative purchases, the falling off in the demand for goods is an immediate influence. One of England's large markets is India, and the population of India includes people of very small incomes. By the time 30 to 40 cents per pound has been paid for raw cotton, 25 per cent added for exchange charges on its movement to Liverpool, costs of manufacture into cloth at the present wage scale and high ocean freights are added, the price is almost prohibitive in India. The London Times, discussing part of the subject says:

> The great difficulty of the immediate future is that of prices. It is said by merchant shippers of great experience in the Indian trade that India, broadly speaking, cannot pay Manchester prices for the principal cloths and that these prices, though considerably lower than they were, are still at a range that is beyond the reach of the average user, and that nothing worth speaking of will be done until there is a further and considerable reduction. Some justification for this view is found in the fact that while there is at the present time a fairly active inquiry for all styles, only a small and fitful trade is proceeding, a trade that is insufficient to keep occupied mills producing cloth for India, and that can give no satisfaction either to producers or traders. It must be remem-

pered that low exchange adds greatly to the cost of British goods in India, and that the price of fabrics ordered now would be very high indeed when they arrived at the bazaars, in most cases five times the pre-war figure.

Wool, Rubber, Silk and Hides.

Trading in futures has never been established in wool, so that there is none of the short-selling which is blamed for low prices in cotton, but the wool market is even more stagnant and depressed than the cotton market. The situation is the same—a lack of demand for present consumption and a lack of speculative interest in future needs. It is a time when many people would rather keep their money in hand than invest in products which depend for a market on world trade and world prosperity. Everything may be coming out all right but there are many elements of uncertainty to make traders prefer a conservative course. The present state of turmoil results in high prices for finished goods and relatively low prices for raw materials. In this country the demand for wool has been light and prices have not improved. Producers generally are holding their clips in hopes of a revival in the woolen goods trade. The situation has been hurt sentimentally by the outcome of the government offerings of Australian wool in London last month. The sale was planned to run from September 21 to October 8, but competition has been so light and results so unsatisfactory that it will be closed on the first. Accepted bids were 5 to 7½ per cent lower than at last sale on high-grade wools, 10 to 15 cents off on lower grades, and most of the offerings have not been sold. The pending miners' strike is named as an unfavorable influence.

Rubber is selling at the lowest prices on record, 28 to 30 cents, against 52 to 53 the first of this year. The tire companies have laid off a great many people and are operating at about 50 per cent of capacity.

The silk market has undergone but little change since the heavy decline of last spring, when prices of raw silk fell about 65 per cent from the high point of last winter. The price of raw silk in Japan is now supported by a syndicate which is backed by the government.

Hides are down practically to pre-war prices, and the demand has shown little or no recovery as yet.

General Trade and Industrial Conditions.

The developments of the month have strengthened the general conviction that the boom period in prices is over, and the country is settling down to conditions more normal than those which prevailed in the last half of 1919 and the early months of 1920. The day of competition among dealers for goods at any price and among employers for laborers at any wage has passed. There is good buying power in the country yet, but the keen edge is off; the feeling is that from now on there will be enough of everything to go around, and that most things will be cheaper rather than dearer —all of which is good reasoning. War conditions do not last always. Imports in the first seven months of this year were $3,481,000,000 against $1,954,000,000 in the same months of last year. The crops are large and the cost of living is lower than last year. The argument for wage increases based on the cost of living works both ways, and the argument of diminished demand for goods and diminished employment is one of the most convincing in the world. It cannot be answered or put aside. It looks everybody in the face until something is done about it.

It was said that as the fall opened the merchants would have to order goods to take care of the fall trade and the coming spring trade, but there has been no rush to do so as yet. Cotton goods business started up rather sharply after Labor Day, but the moment prices stiffened up the demand weakened; then came the slash of 33 1/3 per cent by the Amoskeag Company and cuts all along the line, with the result that prices are more unsettled than before.

In woolen goods the manufacturers of cloth have cut prices 15 to 20 per cent, and important houses in the making-up trades have announced that clothing will be lower. Underwear and knit goods are in an unsettled state, it being claimed that the lower cost of materials do not compensate for recent wage increases. The large manufacturers have made no move for wage-reductions and wish to avoid them. The reductions thus far are coming out of raw materials and manufacturers' profits.

The prospects are that merchants will avoid large commitments, and rely upon stocking up frequently.

Quantity Production Necessary to Low Prices.

The automobile trade has experienced a falling off of business, and Henry Ford has responded by returning to the pre-war scale of prices, and without any wage reduction. Mr. Ford is one of the great exponents of quantity production. No one has done more than he to demonstrate its economies, so this policy is what might have been expected of him. One feature of modern, capitalistic, industry which its critics do not appreciate is that it is far more interested in steady production than the small proprietor of former times. The latter could lay off his force of workmen and suffer practically no loss but the loss of profits, but a plant representing an investment of millions cannot afford either to be idle or to run at only a part of its capacity. Big industry is in-

terested in getting upon a stable basis as quickly as possible, and that is in the interest of the entire community.

Despite the fact that a large number of wage-earners have been laid off in the tire factories, shoe factories and textile mills, and that local trade has been affected to some extent thereby, the percentage of unemployment the country over is small and not likely to increase. Payments through banks are about on a level with a year ago, and throughout the great west there is entire confidence in the future. The railroads have accomplished a great improvement in efficiency, and handled more freight in the month of August than in any other August on record.

A Check to the Downward Movement.

There is good reason to think that in the industries that have been most disturbed the price reductions have gone about as far as they will in the near future. Other industries must expect to contribute their share in the general readjustment, and the more readily they do so the better all around. These price reductions have not yet been reflected in retail prices everywhere, but that, too, is a development on the way and which the enterprising, public-spirited merchant will want to hasten.

There is always difficulty in managing a downward movement. Once confidence in prices is unsettled suspicion is alert. Buyers are wary at any price. It is a mistake, however, to think that prices—at least the average of prices—may slump back to anything like pre-war figures. They have almost done so in some lines, but these prices will probably recover a part of the lost ground. There are too many factors in the situation to permit of complete readjustment at once. It will be a time process. The business community does not like the idea of doing business on a declining market, but that is the prospect for some years to come, and business must plan for it. Where retail prices reflect all the reductions that producers have been obliged to take the cost of living will be materially lower than it was at the high point, but it will still be a long way above the pre-war level. It is not certain that all of the recent reductions can be maintained; this is the season when food is cheapest. A fair start has been made, and a revival of activity in the trades most affected is desirable and probable. We adhere to our opinion that there is too much employment in sight in this country, and too big a crop in the barns, for a prolonged period of depression.

The Credit Situation.

A feeling of greater ease and confidence has characterized the money market during the past month. Time money on collateral security has been in more liberal supply, and as low as 8 per cent, although the bulk of the business was at 8¼ and 8½. The rate on commercial paper has been steady at 8 per cent with but little doing by the New York City banks. Their loans are closely confined to customers. The call money rate has been below the time rate, and as a rule about 7 per cent.

The fact that the first month of the fall season has been passed and the money for moving the small grain crops has been provided without seriously increasing the strain has contributed to the easier feeling. So far as the grain crops are concerned the worst is probably over, for although only a small portion of the crop has been moved, the conditions are such that the remainder is likely to move slowly and the credit in use will be turned over and over, with perhaps no more in use at any one time than is employed now. As the farmers sell, the banks in the farming districts come into funds with which they liquidate loans at the centers, and thus place the latter in shape to continue advances upon grain.

Banking Conditions.

But little change has taken place in the banking situation in the last four months, or, indeed, this year. On June 4, the total earning assets of the twelve Federal Reserve banks was $3,276,626,000; on July 2, the total was $3,271,579,000; on August 6, $3,187,592,000; on September 3, $3,364,936,000; on September 24, $3,309,588,000. The high record for the system since its organization was that of September 3. The big rise in loans last year was after September. From September 19, 1919, to January 2, 1920, the earning assets of the reserve banks increased from $2,349,971,000 to $3,181,808,000, and a corresponding rise of prices took place.

Some people say the increase of loans last year caused the rise of prices and some say it was made necessary by the rise of prices, but it would be a more accurate statement to say that the increase of loans financed and made possible the rise of prices. If credit had not been granted so freely there would have been less competition for goods, materials and labor, less speculation in commodities, and possibly some temporary curtailment of industry while prices were finding their level, just as there has been this year. It is impossible to interrupt a rise of prices without causing some unsettlement in business. When prices are rising people overbuy, anticipate future wants, store up raw materials, hire labor away from each other, build extensions, etc., and when prices begin to fall they abstain from buying, deplete their stocks, make goods only on order and cut down expenses. The former is a more exhilarating state of business than the latter, but sensible people know that prices cannot be always advancing.

The influences making for high prices last year were stronger than now. It was the first year after the war and the markets were under pressure from a flood of business held back during the war. The

buying of clothing was on a great scale and the foreign demand made high prices for foodstuffs. The first move by the Federal Reserve authorities to hold the expansion of credit in check was made in November.

The Relations of Credit to Production.

The people who are claiming that the curtailment of credit will interfere with production should take notice that the great rise of loans last year did not increase production. A year ago the makers of goods were not soliciting orders; they had their traveling men at home, and their activities in selling goods were confined to apportioning their products among clamorous buyers. The effect of the abundance of credit was to enable buyers to compete freely with each other for materials and goods. Instead of increasing production it drove up prices. Production can go on as well on one level of prices as another, when conditions are settled. If the banking authorities allow the volume of credit to be adjusted to rising prices, regardless of the relation of credit to reserves, the situation will run away with itself every time, and end in a collapse ruinous to all business.

There are always people who say that the bankers who try to hold inflation in check do not know their business, are illiberal or guided by sinister motives. History repeats itself over and over, but the principle that the volume of credit must be kept in proper relation to banking reserves and that prices should be related to a concrete standard of value has been vindicated always.

Effect of Gold Importations.

One explanation of the easier tone in the money market is to be found in a moderate increase of reserves, due to importations of gold from Paris and London. The lawful reserves of the reserve banks on September 3 aggregated $2,117,957,000, and on September 24 they aggregated $2,151,594,000. That is not as large a gain as might be expected, because while we were receiving imports at the front door we were losing at the back door by exports to Japan.

It is expected that more gold will come from Paris in settlement of the Anglo-French loan, and we may continue to get some of the South African gold from London, but it is a mistake to count upon any of these receipts to ease the credit situation. It will be a mistake to allow loans to increase on the strength of such additions, because we are likely to lose all that we get and more, too, and if we allow loans to increase on such an unstable basis we probably will find ourselves compelled later on to reduce them. The payment of the Anglo-French loan is not a recurring event, and in the present state of world trade we are more likely to lose gold than acquire it. Under these conditions it is unsafe to increase credits. The country is taking the only practicable steps toward relief from tight money by lowering prices, and all the ground gained in that direction should be tenaciously held. What goes up must come down, as a rule, and the problem is to get down without disaster.

The Process of Deflation.

Despite the complaints made of injury done by credit curtailment the record shows that there has been no reduction of bank loans as yet. The loans of the reserve banks have averaged higher in the last month than in any other month since the banks were established, and the loans of member banks have also been at the top notch. On September 10, the loans of member banks reporting to the Federal Reserve board aggregated $16,923,467,000, against $15,457,705,000 on September 12, 1919, an increase of $1,465,000,000. There has been no increase of production to correspond with this. The effort to increase production by expanding credit in a period of rising prices is precisely like the efforts of a kitten to catch its own tail. The more credit is granted the higher prices will be and greater will be the demand for more loans.

The efforts of the banks up to this time have accomplished no more than the prevention of further expansion. With the decline of prices however it should be possible to accomplish some degree of deflation. There should be no relinquishment of that purpose until the bill-holdings of the reserve banks are far below their present proportions. It cannot be too often repeated that the reserve banks were intended to hold reserve resources for use in emergencies and to meet seasonal requirements. They were not intended to be loaned up to the limit in normal times. It should be the purpose of every banker to reduce his requirements upon them to this basis.

Foreign Exchanges.

The foreign exchanges nearly all suffered some decline during the month. The changes are shown by the following table:

	Unit Value	Rate in cents Aug. 26	Rate in cents Sept. 27	Change from par	Depreciation
Canada	1.00	.8887	.9020	.0980	9.80
Germany	.2382	.0210	.0163	.2219	93.16
Italy	.1930	.0467	.0420	.1510	78.24
Belgium	.1930	.0755	.0706	.1224	63.42
France	.1930	.0706	.0668	.1262	65.39
England	4.8665	3.59	3.4925	1.3740	28.23
Switzerland	.1930	.1655	.1608	.0322	16.68
Holland	.4020	.3175	.3108	.0912	22.69
Denmark	.2680	.1420	.1375	.1305	48.69
Norway	.2680	.1420	.1370	.1310	48.88
Sweden	.2680	.2030	.2002	.0678	25.30
Spain	.1930	.1612	.1470	.0460	23.83
Argentine	.9648	.8475	.8500	.1148	11.90
Japan	.4985	.5150	.5140	*.0155	3.109

* Premium.

Canadian Trade and Exchange.

Canadian government figures for the trade of that country with the United States for the year ended with July show imports of $881,147,000 and exports of $537,000,000, with a balance in favor of the United States of $344,000,000. Notwithstanding the adverse exchange rates which prevailed throughout the year, imports from the United States increased $186,289,285 over the preceding year while exports to the United States increased $75,363,570. Here is the explanation of the fact that the Canadian dollar is at a discount of about ten per cent compared with the United States dollar, although the gold parities are the same. It is a problem all the time in Canada how to find means of making payments in the United States. The ordinary trade movement does not suffice. Just now, however, a new factor is developing in the situation, which is the new Canadian crop. For the first time in several years the crop is free to move as the owners please and there is no tariff barrier against the movement of wheat and flour into the United States. The result is that the premium on the United States dollar amounts to a bounty on shipments to this country.

With the wheat markets on the same level, or near it, the Canadian miller can undersell the American miller in this market, unless the latter also grinds Canadian wheat. Under these conditions it would seem that either Canadian wheat must rise or the premium on American exchange must decline. We suggest to business men in the United States who have been accumulating funds in Canada because of the exchange situation, that they investigate the possibility of converting such funds into wheat and sell the latter to millers on this side of the line.

There is, however, still another factor in the situation. Canada's entire foreign trade in the twelve months ended with July consisted of: exports, $1,264,463,537; imports, $1,253,191,735. This is practically a stand-off on the movement of commodities, but Canada is a debtor country on capital account, with a large sum of interest to pay in England and in the United States. On the whole account therefore it must find some other means of making settlement or its exchanges will drag.

Immigration is strong and is bringing in considerable capital; borrowing in one form or another will have to supply the remainder, but it remains to be seen whether the funds will be available in such a way as to sustain the exchanges. The Canadian authorities are hoping for about 500,000 immigrants per year, which at $100 per head would bring in $50,000,000. The record for immigration in Canada was 402,000, in 1913.

Anglo-French Loan.

Five years have passed since the Anglo-French loan of $500,000,000 was issued. Now that both of the borrowing governments have announced that they have completed their arrangements for payment in full on the 15th of this month, it is pertinent to recall some of the dismal prophecies that were made at the time of issue. A great many people were very sure that both countries were even then hopelessly bankrupt, and that the investors would never see their money again. The war lasted for three years longer, with expenditures constantly increasing, and the two years, nearly, that have passed since the war ended have been almost as expensive as the early years of the war, and yet the lenders are to have their money on the due date, according to promise. Moreover, industrial and financial conditions in both countries have been steadily improving. It is true that much unrest and confusion exists, and that this retards recovery, but in view of what has been accomplished there is reason for confidence rather than pessimism. The peoples of Europe can ruin themselves by destroying the industrial organization if they are determined to do so, but on the other hand there is no reason to doubt that they can work out of their troubles if they set themselves to the task.

The French Payments.

France is meeting its portion of the joint loan in part by the flotation of a new loan of $100,000,000 in this market and in part by shipping gold; the other arrangements are not publicly known, but presumably from $50,000,000 to $75,000,000 is provided by the sale of American securities acquired from French holders or by the purchase of New York exchange in the London market. We do not hesitate to express our regret that it has been necessary for France to either ship gold or buy exchange at the present very high rates, which require the payment of about three times the sum in francs that in normal times would be necessary to extinguish a similar debt in dollars. Before the war a franc counted approximately as 19.3 cents in making payments in dollars; now it is counting as less than 7 cents. The United States does not get the difference, but France loses it by being obliged to acquire exchange on the United States at this time. Moreover, the efforts of the French government to acquire New York exchange have tended to depress the value of the franc in relation to the dollar, and thus make American goods cost more to French buyers.

And so it may be said of the gold that is shipped that the United States does not need it while France does. This gold should not be allowed to become the basis of new credits, for our task now is to reduce the volume of outstanding credit.

The British Payments.

Similar comments may be made upon the payment of England's half of the loan. It is unfortunate that England was obliged to pay her share of the loan at this time. The acquisition of New York exchange for this purpose has been in whole or in part responsible for the fall in

the value of the pound sterling from around $4.00 to around $3.50, which makes it just so much harder to sell American products wherever the pound sterling is the standard of value. The gold that has been received from England has gone into our reserves, but the present volume of bank credits is about the same as before it was received. Some of it has been exported, and to that extent it may have been serviceable in preventing a reduction of our reserves at this time, but on the other hand, so intricate are the workings of the international exchanges that the very movement of gold from England to the United States, by disturbing the international equilibrium, may cause a movement of gold from the United States to some other country.

Loans Should Have Been Renewed.

The fact is that the best interests of all countries would have been served by a renewal or replacement of the Anglo-French loan for another five-year period. It would have assisted France in her recovery and helped England to extend more credit to continental Europe, and have served both ways in getting the world back to rights. Why didn't we do it? Simply because the number of persons who understood these relationships was too few to enable the thing to be done. The available capital was insufficient. The $100,000,000 borrowed by France costs over 9 per cent interest, and if the offering had been $500,000,000 nobody can say what the rate would have had to be to bring the subscriptions. It would have been an impracticable attempt, and England chose not to enter the market at all. The trouble is that we are not accumulating capital fast enough to play the helpful part in world affairs that we ought to be playing at this time. We ought to be granting credits to Italy, Germany, Austria, Poland, Czecho-Slovakia, and other countries to enable them to buy raw materials for their industries and get back to steady work. As a people we are spending too much on unnecessary things and investing too much in unnecessary and often ill-advised enterprises, like some of the companies in the west referred to elsewhere. A deplorable amount of waste is going on while the world society seems to tremble upon the very brink of dissolution for lack of effective co-operation.

A conference is now in session in Brussels to consider international financial relations, but there is not much that Europe alone can do to improve those relations. The United States, with an industrial capacity nearly equal to that of all the rest of the world put together, is a necessary factor in world reconstruction.

It may be stated in this connection that England is doing much more than the United States through investments on the continent and by supplying raw materials upon arrangements by which it receives payment in finished goods. It is not strange that this should be so, for the business men of England are experienced world traders, are nearer to the situation and have a better knowledge of it, but in view of England's expenditures in the last five years and her own scarcity of capital it is a notable and highly creditable fact. It is a display of enterprise of the most constructive kind.

Production, Wages and Profits.

The manner in which international interests and all social interests are allied and are reflected in the exchanges is illustrated by the effect of the British coal strike upon New York exchange. Messrs. S. Montague & Co., London brokers, state in their weekly circular letter that the fact that a strike was imminent caused a demand to spring up in London for New York funds from neighboring countries accustomed to rely upon England for coal, but who wished to make arrangements to buy coal in America. The London Times commented upon the circumstance as follows:

A moment's consideration of what this means to the community at large is seriously worth while. This emergency demand for dollars has inevitably forced down sterling exchange on New York, with the result that, quite apart from all the loss that would be incurred to our industries by a coal stoppage, the mere threat is causing us to pay more pounds sterling for the vast amount of wheat, cotton, and other prime necessaries that we import from America. In other words, as wages can be measured only by their purchasing value, those responsible for the strike movement have already set in motion a force for lessening the value of wages. It is a truism, but one that cannot too often be repeated, that the primary need before the country if the lot of the worker is to be lastingly improved, and not merely met by rises in wages offset by corresponding reductions in their relative purchasing power, is an increase in production. How utterly useless is an increased distribution of currency unattended by increased production (i. e., real wealth) may be seen from present-day events in Russia. It is understood that within Soviet Russia 3,000,000,000 roubles (the former value of the rouble was 50 cents) in notes are printed daily, or a sum equal, at the gold par of exchange, to £2 per head for every man, woman and child in that country. But the inevitable effect has been to drive down the real value of the currency to near vanishing point. For instance, it requires to-day about 15,000 paper roubles to purchase goods in England of the value of £1, and it would require an income of something like 2,000,000 Soviet roubles for the Russian workman to live in moderate comfort.

The Argentine Exchanges.

The exchanges have run strongly against Argentina in recent months. The months that are summer here are winter there and the dull season for exports. The movement of grain was very heavy following the harvest last December, but there has been little to ship of late. A considerable amount of low grade wool is on hand, but there is little demand for that kind of wool. The slump in wool and hides is a serious matter to Argentina, although general business is in good condition as a result of the high prices received for all products in recent years.

Several months ago the Argentine government, which had been steadying exchange rates on New York by supplying drafts against a credit which it had in the Federal Reserve Bank here discontinued the practice, with the result that New York exchange in Buenos Aires shot up to a premium of

10 to 20 per cent. The latter part of August the government gave some relief to the situation by resuming the sale of drafts for specific trade payments, reserving the right to examine the books of applicants for first-hand knowledge of the purpose that is served. One shipment of over a million of gold from Buenos Aires has also been reported. These sales appear to have been so restricted as to have met the needs in only a small degree, as New York exchange is still worth about $1.18 at Buenos Aires, against the normal price of about $1.03. This rate is operating to the injury of American trade in that quarter.

The Argentine situation should improve in the early winter, when the new wool clip will be ready for market and the grain crops are harvested, but in view of the fact that last spring's clip of wool in the United States is still mainly in the hands of growers the prospects for selling wool in this country are not bright.

Other Gold Importations.

The Federal Reserve Bank of New York has given out that it will remove to this country the gold, amounting to $111,000,000 which has been for some time carried in the custody of the Bank of England. This gold is what remains of about $173,000,000 received from the German government about a year ago by the United States Grain Corporation. The original sum has been reduced by sales on behalf of American importers, who took that method of payment where there was gain in doing so. These sales having ceased it has been determined to bring the remainder of the stock to this country. As this gold is already carried as part of the reserves of the reserve system its transfer will make no difference in its resources.

Borrowing to Pay Old Debts.

We are in receipt of an inquiry from a correspondent as to the merit of a suggestion that the obligations aggregating $10,000,000,000 owing by nations of Europe to the government of the United States be put into the form of bonds of varying maturities and sold to the investing public of this country, thus providing funds with which to reduce the outstanding public debt of the United States government and particularly for the purpose of relieving the banks of their holdings of Liberty Bonds and of loans secured by such bonds.

The inquiry quotes a newspaper editorial as saying that the "recent oversubscription of such new securities as Armour & Co., General Motors and Swiss and French governments" indicates that the proposed offering would be quickly absorbed.

Answering the inquiry we would say that the total of the Armour, General Motors, French and Swiss government flotations referred to was $249,000,000 and the rate of interest at which the notes were floated was approximately 8 per cent. The fact that the market was able to absorb these issues does not prove its ability to take $10,000,000,000.

Unless the foreign bonds were guaranteed by the United States government they could not be sold, even in small offerings, except at interest rates very much higher than are now running to the United States government, which at this time would be a great hardship to the debtor countries.

The proposition offers no relief. It would dip out of the same pool into which it would pour. It proposes the expenditure of a great amount of labor and money to induce the American people to take up a new issue of bonds to pay off an old issue which they now hold. There is no new money in sight anywhere except the current accumulations, and they might be as well applied in payment of the old bonds direct as for the purchase of new ones.

As a matter of fact, current earnings are being so applied. The amount of Liberty Bonds and of loans secured by them in the hands of banks is being reduced, but all of the current earnings of the country cannot be so applied. Such issues as the Armour offerings referred to are necessary to the expansion of the industries. Indeed, the purpose of the Armour issue was to reduce the company's borrowings at banks, and the capital thus provided accomplished as much in liquidating the credit situation as though it had been applied on the government debt.

Postal Savings Proposals.

The scheme to attract more funds to the postal savings banks by raising the interest rate invites similar comment. There is no gain in attracting money to the postal banks from other savings banks, and no good reason to believe that the amount of savings would be increased. The war savings stamps, which are sold at the post offices, afford a higher rate of interest. The postal savings system has never realized the expectations of its promoters, who prophesied that it would receive billions of hoarded funds in short order. It has been in operation about ten years, and there is no evidence that any large amount of its receipts have come from hoards. At the present rate of return on government bonds the government of course could afford to pay a higher rate of interest at the postal banks, but the present return on government bonds is something temporary; before many years the government will be refunding its debt at a rate probably below that which the postal savings enthusiasts are proposing to pay. The government does not adapt its policies to changed conditions at all readily, as witness the exchange rates maintained by the post office department, and it is doubtful policy for it to change its postal savings policies to suit temporary conditions.

It should be always borne in mind as a fundamental condition of sound and helpful banking that the savings or deposits of each community

should be invested in that community. Here is the weakness in the whole postal savings scheme; there is always the danger that the deposits will be at the disposal of a central board at Washington, who will handle them without any regard for the local interests of the communities to which the funds belong. The local savings banks generally are large lenders of money upon real estate mortgages, and this proposal to divert savings from the local banks to finance the affairs of the Federal government might seriously deplete the funds available for local building operations.

Great Lakes—St. Lawrence Project.

The International Joint Commission, which was created to assist in dealing with all questions of mutual concern related to the water-ways which form the boundary between the United States and Canada, pursuant to instructions from both governments is conducting a series of hearings in important cities of both countries, to take opinions and gain information upon a project for improving the St. Lawrence river to permit its use by vessels drawing 25 feet or more of water. Sessions will be held in New York City and Boston during this month, and the commercial bodies of these cities will no doubt show an active interest in them.

This project is being energetically pushed by an organization known as the "Great Lakes-St. Lawrence Tidewater Association," of which H. C. Gardner, of Chicago, is president, and Charles P. Craig, of Duluth, is vice-president and executive director. Meetings have been held in several western cities and attended by delegates from the states bordering upon and tributary to the great lakes, and a notable degree of interest has been developed. The delay in moving last year's crops, owing to the congested state of the railroads has greatly stimulated this interest, and it is apparent that in a dozen or more states sentiment is strong for co-operative action by the two governments to create an effective waterway from the chain of lakes to the sea. These states are strong in the national Congress and evidently intend to push the project aggressively. It is a subject therefore which should have careful consideration upon its merits.

Disadvantages of the Waterway.

The St. Lawrence as a route to the ocean is under some serious handicaps as compared with the routes through the Atlantic ports of this country. It is closed by ice part of the year and when open is subject to fogs which make navigation hazardous and increase insurance charges. Nevertheless, it is probable that if ocean-going ships of 5,000 to 10,000 tons were able to enter the great lakes they would become an important factor in moving the grain exports of the northwest and would develop considerable other traffic.

The Canadian government has spent money freely in the past upon the St. Lawrence route, and is committed to large expenditures in the future. It is now engaged in reconstructing the Welland Canal, to give it a depth of 25 feet, which will cost $75,000,000 to $100,000,000. That work is about one-third done, and it will be of small service unless the St. Lawrence is made navigable at a similar depth. From the foot of Lake Ontario to tidewater at or near Montreal is 181 miles by the river, of which 113 is international boundary. It is said that expenditures required to make the river navigable would be confined to 46 miles of the 181, or a distance of about the length of the Panama Canal. Argument for the feasibility of the project centers largely upon the claim that the improvement of a comparatively short stretch of river will connect large bodies of navigable water.

Power Possibilities.

The project has another interesting feature, which in the minds of many people is of even greater importance than the waterway. In the international section the river falls 91 feet in 65 miles, of which 48 feet is in 12 miles, and in the Canadian section it falls 130 feet in 70 miles, of which 129 feet is in two stretches of 14 and 8½ miles each. The St. Lawrence has a heavy flow of water, remarkably uniform in volume throughout the year, and it is estimated that improvements which would make the river navigable could be made to produce approximately 4,000,000 horsepower between Lake Ontario and Montreal, the income from which would pay interest upon the entire expenditure. Estimates on the required improvements are from $250,000,000 to $300,000,000.

The power would be easily within serving distance of the upper half of New York state, including the cities along the Erie Canal, and probably could be used advantageously in New York City and in a large part of New England. If the project is as feasible as represented it would effect a very large reduction in coal consumption and probably in the cost of power to the industries. This feature of the proposition obviously is more interesting to New York state than the water-way, but on the other hand the west is chiefly interested in the latter.

There appears to be a feeling in some quarters that New York City and state are likely to oppose the project as inimical to the Erie Canal, but opposition upon this ground would not be justified. In the first place, New York has nothing to fear from any development which benefits the west. Its interests are one with the interests of the whole country. The position of New York is secure; its relations with the west will not be seriously affected by any movement of freight either by way of the St. Lawrence or the Mississippi. It would be short-sighted, and unworthy of the city's position and prestige, to ever take any other view of the relations between this city and the west.

The project is one which as presented seems to have important possibilities. It involves too large an expenditure of money to be undertaken carelessly in these days of high construction costs, but it deserves to have its merits investigated. The War Department engineers have it in hand now, but the interests of New York state are so great that it would seem to be both proper and desirable that the state, through either its official or commercial bodies, should take steps to participate in the inquiry, particularly as to the probable outlay and the amount and cost of the power that might become available.

Wasteful Promotions.

We have referred heretofore to the speculative flotations of local corporation stocks which have been going on in many parts of the country since the end of the war and even before, and which have had much to do with the present tight credit condition. In the state of Iowa at this time two new companies organized for meat-packing are in the hands of the courts, and investigation into their affairs has revealed scandalous expenditures in promotion.

The Midland Packing Company of Sioux City sold stock amounting in face value to $8,422,300, upon which it appears to have received $6,272,533, and is holding uncollected subscriptions for the balance. The amount received is accounted for as follows:

Promotion expenses	$2,561,814
Packing plant	3,158,897
Note discounts	362,000
Salaries	117,035
Organization expenses	23,000
Traveling, entertaining, etc.	11,787
Office expense	38,000

In addition to the foregoing there is an operating loss of $205,863.64, which indicates that the company actually reached the stage of producing meats. The other company, known as the "Associated Packing Company," of Des Moines, did not get quite so far, having sold only $3,800,000 of stock, and having gone no farther in construction than to acquire a set of blue prints. Expenditures for promotion have been on a similar scale.

Selling Packing Stocks to Farmers.

These stocks were sold mainly to farmers, upon the representation that the undertakings were of the nature of co-operative enterprises, and the ground was well prepared by the exaggerated reports that have been in circulation about the profits of the packing industry. The investors could have bought the stocks of the long-established Chicago companies in the open market at less than their book value at the very time they were making their subscriptions to these new concerns.

The farmers bought in blocks frequently of $5,000 and $10,000, and gave their notes which were discounted in neighboring banks, where they will have to be held until they are paid off by the produce of the farms.

Some of the arguments used in selling stock are summarized below from the testimony of a farmer. They told him—

That Frisby (who was to be manager of operations) had been with Swift & Co. for ten years, and that he made $10,000,000 a year for that company.

That Frisby had bought meat for the government.

That the packing company site included a "chain of lakes," and that the company had its own water and its own ice supply.

That the packing company had an icehouse full of ice.

That the company had ten carloads of machinery on the grounds or on the way to Des Moines, all purchased "before the raise."

That two carloads of hogs in 1921 would pay for all of Young's stock ($7,500 worth).

That the company's promotion work cost only 5 per cent, and that out of every $100 worth of stock, $95 or more actually went to the company.

That fifty shares of packing company stock would make more money for Young than his farm.

That there was no stock for sale in packing companies now operating, and that Associated Packing company stock would be worth $200 a share a year from the date of the conversation.

That the icehouse would pay dividends "this year" (1920).

That they didn't want business men from Des Moines in the company—they wanted farmers; and that 98 per cent of the stockholders were farmers.

A Motor Company.

The Federal Trade Commission has conducted an investigation into the sale of stock for the Pan Motor Company, a Minnesota corporation. It found that the stock was sold to some 54,000 persons, from whom the promoters received the aggregate sum of $4,723,811, and that nearly $1,200,000 was paid to salesmen in commissions, Over $650,000 was retained by the boss promoter for his services as fiscal agent and over $500,000 went for advertising and other expenses, so that nearly one-half the receipts were absorbed in getting the money.

Promotion Schemes in Disfavor.

The activity of this kind of operations in Nebraska caused the Nebraska Bankers Association at its recent annual convention to adopt the following excellent resolution upon the subject:

"Resolved—That it is the sense of this convention that its members should look with disfavor upon any recognition of the various promotion schemes that are being offered to the public from time to time and we would recommend that the bankers of the state use every means in their power to discourage the purchase of such securities by their customers.

"That this association place itself on record as disapproving and discountenancing the practice of banks in the purchase of notes given for the purchase of promotion stocks and securities and in assisting in the negotiation and sale of these stocks for a consideration, and the issuance of time certificates in payment for notes given therefore and condemn these practices as being unsound banking and contrary to the highest ethics of the profession.

During the first year under the so-called "blue sky" law in Illinois the Secretary of State, Louis L. Emmerson, reports that 40 per cent of the applications made were rejected. The applica-

tions approved involved securities totaling $232,-846,935. The rejects totaled $66,917,410. Secretary Emmerson's report covered the period from June 10, 1919, to June 10, 1920. During the year there was approved in all states with blue sky laws securities totaling $355,458,935, of which $211,-955,350 was in class "C" securities, based on established income, $143,503,640 in class "D" or speculative securities.

Fake Promoters and Reformers.

It is perhaps not out of place to say that the readiness of the public to buy the stocks of fake packing companies, upon the representations of persons who have never even taken the trouble to study the balance sheet and earnings statement of a legitimate packing business, is very much like the manner in which it takes to fake reformers in the business, social and political fields. Society is harassed on all sides by these "promoters" of various types who are either out-and-out frauds or do not know what they are talking about. Neither legitimate business nor real social progress are forwarded by their methods.

Services of the Stock Exchanges.

The number and character of these "wild-cat" flotations over the country in the last two years serves to illustrate the public services rendered by well-governed stock exchanges. The stock exchanges are not responsible for speculation; the flotations that are carried on in unlisted stocks, in lands and all kinds of property, give evidence of that. The stock exchange is a market where securities are bought and sold under certain rules provided for the protection of investors and the convenience and advantage of all concerned.

The New York Stock Exchange is a voluntary association, and, as recited in its constitution, the object is—

> "To furnish exchange rooms and other facilities for the convenient transaction of their business by its members, as brokers to maintain high standards of commercial honor and integrity among its members; and to promote and inculcate just and equitable principles, of trade and business."

Its control is vested in the Governing Committee, composed of forty members, and the President and Treasurer. One-fourth of the Governing Committee, with the President and the Treasurer, is elected annually. From this body the President appoints every year the standing committees, among them the Committee on Stock List, composed of five members. The duties of said Committee are defined by the constitution, as follows:

> "Thirteenth A Committee on Stock List to consist of five members. It shall receive and consider all applications for placing securities upon the list of the Exchange, and make report and recommendation thereon to the Governing Committee, giving full statement concerning organization, capitalization, resources and indebtedness.

The Exchange assumes no responsibility for the representations made to it, but it endeavors to obtain from each corporation whose securities it admits to the trading privilege authentic information as to property, liabilities and earnings which will enable the investor to form his own idea as to the values. It exercises the authority to strike a security from the trading list upon the occasion of any conduct on the part of the issuing corporation which justifies a loss of confidence in its intention to deal frankly with the public. All members of the Exchange are required in their relations with customers to conform to the rules laid down to enforce fair dealing and if shown to have violated such rules are subject to public expulsion. The Exchange will not list the securities of any corporation in the promotion stage. It must be able to show a record of earnings. In short, the selling of securities is reduced to orderly methods with every practicable safeguard against deception. And that is the difference between the distribution of securities through the New York Stock Exchange and distribution through irresponsible salesmen, after the manner of the stocks in the companies above described.

Foreign Government Bonds.

Two important pieces of international financing have been handled during the month. One is the $100,000,000 French 8% Loan, and the other the $20,000,000 Kingdom of Norway 8% issue which was offered to the public on September 28. Both loans were a great success, subscriptions were received from every part of the country in small amounts.

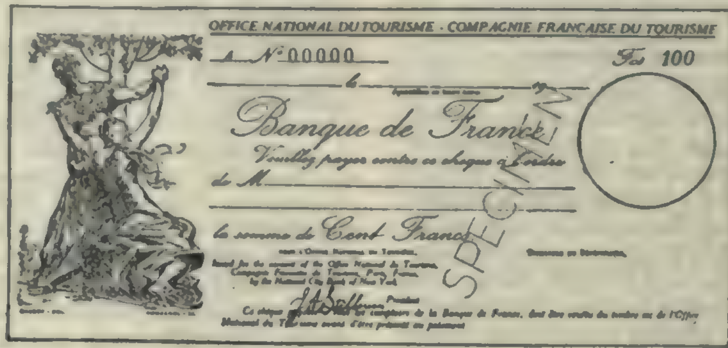
These issues were offered to yield at least 8% on the Norway Loan and 8.20% on the French Loan and considerably more through the premium redemption features which these loans bear.

Although interest rates are high on these foreign loans the borrowing countries accomplish a great saving over the cost of making payments in this country at the present rates of exchange.

Discount Rates.

The only change in rates at the Federal Reserve banks in the past month has been an advance to 6 per cent by the Kansas City bank upon loans secured by United States government obligations.

Bank of France Travelers' Checks



A NEW type of travelers' check has been devised to relieve the tourist in France of the burden of fluctuating exchange rates, and the inconvenience occasioned when attempts are made to change money in all parts of France. These checks are issued by the Compagnie Francaise du Tourisme of Paris, [the new French government tourists' bureau] through The National City Bank of New York. Among their chief advantages are:

Easy Convertibility

Checks are cashed by all branches of the Bank of France, and can be used at shops, hotels, etc., AT THEIR FULL FACE VALUE, practically everywhere in France or the French colonies.

Convenient Denominations

Checks are issued in books of ten, in denominations of 100, 500 and 1000 francs.

Refund on Unused Checks

Unused checks will be exchanged when brought back home, for dollars at the current buying rate of exchange for bankers' checks on Paris.

Terms of Sales

Checks can be purchased in the United States at the current selling rate of exchange for bankers' checks on Paris; they are sold for the equivalent in dollars of their franc value, plus a commission of one-half of one per cent and a nominal fee of twenty-five cents per book of ten checks to cover the stamp duty of the French government.

The fact that these checks are guaranteed by the Bank of France and issued in a negotiable form familiar to the French people, explains their popularity in France

SOLD BY

The National City Bank of New York

55 WALL STREET

THE NATIONAL CITY BANK OF NEW YORK

1920

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, NOVEMBER, 1920.

General Business Conditions.

THE expectations indulged in during the summer that the state of depression which was affecting certain of the industries would disappear with the opening of the fall season have not been realized; on the contrary, business is generally receding and there is no longer room for doubt that the country has passed the crest of the post-war boom, and begun the process of readjustment upon a lower level of values. Prices have been declining rather than recovering since the first of September, the movement has been spreading to lines not affected before, the industries have been slowing down and unemployment is reaching proportions which will affect consumption. The decline in the prices of farm products has impaired the purchasing power of the farming population, and affected its psychological attitude toward expenditures. The effect of these developments is to give quite a different prospect from that which a few months ago was expected to develop as the fall season advanced.

The summer-like temperatures which have prevailed over the country in October no doubt have affected the retail dry goods and clothing trades and have been a factor in the paralysis which exists in the wholesale markets and throughout the textile industries. The latter have been depressed since unseasonable weather conditions last spring first disturbed the trade.

Wholesale Prices Generally Lower.

The price reductions of last spring in the retail trade were significant of a decline in consumers' demand which has been the master force in the whole movement, but the disturbance of producers' and wholesalers' prices has now gone much beyond the retail reductions. Raw materials, notably cotton, wool, hides, rubber, hard woods, dyestuffs, chemicals, sulphur, etc., have suffered severe reductions, as a result of stagnation existing in the industries in which they are used. The products of these industries are all under pressure, with prices yielding, and in some lines very radical reductions have been made. Food products as a rule are decidedly lower, especially the grains, sugar, coffee, rice, tea, cocoa, potatoes and other vegetables and fruits of universal production. Canned salmon and vegetables are 15 to 25 per cent lower. Meats have had a heavy decline from top prices of 1919 and dairy products are lower. Silver, copper, lead and zinc are almost or quite at pre-war prices. The iron and steel industry, which has been very busy since the strike, shows signs of a slackening demand and of price concessions in all departments, but on the whole is well sustained. Pig iron is off $5 to $10 per ton since September first. The building industry is checked by the prevailing high costs, from which there has been little relief as yet. The coal industry is paying very high wages but production is at a record rate and supplies promise to be ample, which probably will result in lower prices than have been prevailing since the strike last year exhausted the reserves. The railroads have been clearing up the congestion which recently existed, and have not yet shown any material diminution of traffic. Travel is very heavy. Ocean traffic is light and freights depressed. Immigration is very heavy, arrivals at the port of New York last month numbering about 85,000.

Culmination of the Post-War Boom.

The fundamental reasons for the check which has been given to trade over the world are not hard to name. A temporary stimulus was given to business immediately after the close of the war. There was a relaxation of restrictions upon private expenditures and governmental expenditures were still on a very large scale. The revival of trade between countries was a factor. The rise of prices, demoralization of exchange rates, delay in the re-establishment of industry in parts of Europe, poverty of European peoples, war between Poland and Russia, social unrest and threats of revolution have been unfavorable to industrial improvements. Great Britain sold quantities of goods to the Continent last year, for which the materials came from the United States, but such sales could not continue if the Continent did not develop ability to make payment. In any event the extravagant prices of war time and the period immediately following were bound to be reduced.

Where Did It Begin?

The first symptom of weakness was in Asia. Japan suffered a financial and industrial crisis in March, from which it has not recovered, and which seriously affected the silk industry in this country. In the fiscal year ended June 30, 1917, the United States imported 33,868,885 pounds of raw silk valued at about $4.60 per pound and in the fiscal year 1919-20 the imports were 47,133,713 pounds, valued at about $9.25 per pound. At the highest point, last mid-winter, the top grade sold at $18 per pound, now quoted at about $7.00, with rumors of transactions at lower prices and little doing in the market.

The decline in the value of silver, which began last March, has had an important effect upon exchange rates between Asia and other parts of the world. The trade balance in favor of Asia has declined, which reduced the demand for silver, as that metal is a common medium of settlement with China and India. Moreover the supply of silver in the markets has increased, both by a gain of production in Mexico and by the melting of quantities of silver coin which had been driven out of circulation in Europe by paper currency. Last Winter silver bullion sold in the American market as high as $1.38 per fine ounce; at present, although silver of domestic production is taken by the Treasury under the Pittman act at $1.00 per ounce, foreign silver is selling at about 80 cents. This decline has curtailed the buying power of China and other countries that are to any extent on a silver basis, and in this way affected the market for cotton goods supplied by England, and British imports of raw cotton from this country.

The United States Consul at Karachi, in a recent dispatch given out by the Department of Commerce, states that at the high point for rupee exchange $100 worth of American goods cost 225 rupees while at this time $100 worth of American goods is costing an Indian importer 300 rupees.

Decline in Cotton and Woolen Goods.

The break in cotton and woolen goods in this country came in May and under the immediate influence of slow trade, due in part to a backward Spring, but this coincided with the broader influence which was world-wide, having its origin in the inability of the population to take the goods at the high prices prevailing. The price of raw cotton was sustained for a time by the outlook for a poor crop, and on July 23 touched 43¾ cents for July delivery, the high record price since the Civil War. In August, with the crop estimates increased, the price fell to 26¼ cents, and last month fell to 18½ for October delivery, and the May option sold as low as 17½ cents. Since then the price has rallied to about 22 cents for spot delivery. In the last three months have occurred the Russian drive into Poland, the threat of more war, a threat of a general strike in England and of a social revolution in Italy, all having an influence to disturb business calculations and deter operators from planning for production. We quote from the Manchester (England) Guardian reviewing the general trade outlook at the beginning of October:

> "Signs are multiplying that a period of industrial depression is approaching. It will, of course, be with us at once if the miners' ballot, which begins today, shows a majority adverse to the policy advocated by Mr. Smillie. But even if a miners' strike is averted, there are many other causes for anxiety. The cotton trade is stagnant, and the woolen is little if any better. In other great industries the outlook is also gloomy, though present conditions are not so bad as in the staple trades of Lancashire and the West Riding. The world's demand for goods is certainly not yet satisfied. The fact is, however, that people in other lands cannot purchase the goods they require at the prices that prevail at present. The unsolved problem of the moment, therefore, is how to lower prices without inflicting disaster on manufacturers in this country who have, both at home and abroad, large stocks of goods the prices of which are partly based on the cost of raw materials purchased many months ago at higher prices than prevail today."

A New York business man in the textile trade, just returned from the Colombia, is quoted in the New York Times of October 31 as saying that the largest merchandising house in Barranquilla had stated to him that 100 per cent of their customers were demanding indefinite extensions of credit, and adding:

> Coffee planters are reported as saying that they intend to let the present crop, which matures next month, rot on the trees rather than harvest it to sell at prevailing prices, which, they claim, would mean loss. A measure is before the Colombian Congress at the present time to legalize a 100 per cent. increase in import duties, in an effort to raise money and to protect Colombian merchants who have laid in stocks at the high prices which prevailed until the slump three months ago.
>
> The reports from the banks are that drafts remain unpaid and the banks cannot meet their obligations for this reason. In some cases the banks refuse to protest drafts in the fear that they will not only lose their accounts, but precipitate a panic.

This describes conditions existing in other countries of South America as well as Colombia. Reports of this character and of the quotation from the Manchester Guardian, and of the advice quoted above from Karachi, show that similar conditions in this country are not to be regarded as peculiar to this country or due to domestic conditions. They are not chargeable to banking policies in the United States, or to market manipulations, but to world-wide influence. If this is understood generally our people will be able to adapt themselves to existing conditions more successfully than if they accept mistaken ideas about the situation.

In the five months beginning with last May, the exports of cotton from this country have compared with the corresponding months of last year as follows:

	1920 lbs.	1919 lbs.
May	186,583,000	228,264,000
June	122,932,000	351,108,000
July	107,444,000	270,744,000
August	74,767,000	242,614,000
September	119,131,556	119,091,600

The exports of September were largely purchased in earlier months.

The Domestic Textile Industry.

Up to this time the textile industry in this country has been going from bad to worse, which is no more than it usually does after a slump is recognized as under way and until confidence in values is restored on some basis.

The general line of cotton piece goods has been reduced fully one-half since the decline began, which brings prices down to about where they were in the slump following the armistice, in February and March, 1919. The selling has been led by jobbers and other secondary holders who have found themselves overstocked and considered it good policy to move the goods. As is usually the case at the end of a boom period, it develops that there were more goods in the hands of middlemen than anybody had supposed.

The producers have followed the market, endeavoring to get business to keep the mills running, but most of them have either suspended operations entirely or are running on short time. Up to this time merchants have been buying for filling-in purposes only.

The situation in yarns, underwear and knit goods is similar to that in the cloth markets.

Wool and Clothing.

The wool market has been stagnant since last May and hardly enough is doing to supply trustworthy quotations. This year's clip in this country remains for the most part in the hands of the growers. Wool is in an uncertain position, but prices are unquestionably down and all holders have been losers.

The percentage of idle wool machinery as reported to the United States Chamber of Commerce on September 1 was larger than at any time in the last six years, excepting February and March, 1919. The percentage was given as about 35 per cent in looms devoted to women's dress goods and a little above 50 per cent in machinery devoted to men's wear, indicating that trade has fallen off more in men's than in women's goods.

A reduction of 15 to 20 per cent upon cloth prices was put into effect at the openings in September, but the clothing trades have not been satisfied with these concessions. The time for making up goods for the fall season has gone, and that trade apparently has had all the goods it needed. Interest now centers in goods for next Spring, and the clothing manufacturers are holding off for lower prices.

Hides, Leather and Shoes.

If there is any commodity from which inflation has been eliminated it is hides, which are down flat to pre-war prices, and leather prices have followed closely. That the packers and tanners have taken losses running into the millions is illustrated by the recent report of the Central Leather Company upon its operations in the first three months of this year, which showed a loss of $7,213,415, due to shrinkage in values in its inventories.

The decline in hides and leather was a warning of which the public took notice with the result that shoe sales at retail fell off, and shoe manufacturers went through a siege of cancellations similar to that experienced by the woolen goods manufacturers. The industry is running very light at this time, with the public holding off for cheaper shoes.

Export trade in leather comprises about 16 per cent of the total business, and although it has suffered it has held its own quite as well as the domestic demand. Up to August exports of shoes had held up better than the domestic sales. The following figures show the export movement in leather and shoes and imports of hides and skins:

Total Exports of Leather

8 mos. ending August, 1920	$90,373,044
8 mos. ending August, 1919	139,686,594
August, 1920	6,058,896
August, 1919	23,544,890

Total Exports of Shoes

	Pairs	
8 mos. ending August, 1920	11,912,119	$47,627,020
8 mos. ending August, 1919	13,972,757	46,744,640
August, 1920	1,045,630	4,005,426
August, 1919	1,719,418	5,799,349

Total Imports of Hides and Skins

	Pounds	
8 mos. ending August, 1920	402,772,854	$211,594,242
8 mos. ending August, 1919	414,744,120	157,483,871
August, 1920	35,127,547	17,707,633
August, 1919	74,474,944	30,790,244

Elements of Uncertainty.

There are two important elements of uncertainty in prices at this time. One is the labor situation. Price declines in the industries most affected have gone as far as they can at the expense of the profits of operators and as far as they ought to at the expense of producers of the raw materials. Cotton goods are being sold in some instances below present production costs, upon the belief that wage costs will be reduced. There is a widespread belief that wage earners who have had large advances in the last five years will have to make a contribution to the general cause of lower living costs. At this time, when everything is unsettled and everybody is looking for the bottom level, where it will be safe to operate freely, this question of wages continually intrudes itself. Already instances are announced where groups of wage-earners have voluntarily offered to accept

reductions of 10, 15 or 20 per cent to enable industries to continue in operation. The opinion is common that the movement will become general, if the consumer's strike continues. That is to say, if events demonstrate that prices must be lowered in order to distribute the products of the industries, wages eventually will be adjusted accordingly.

The Retailer's Position.

The second element of uncertainty for the time being is the attitude of the retailer, who is generally maintaining prices in order to avoid taking losses on stocks purchased at the old prices. The reduced prices, as yet, have been only partially passed on to consumers, and the reports of slackening trade over the country indicate that the public is cognizant to the situation. The effort to avoid losses is natural enough, but it is checking trade, reducing production, causing unemployment and creating much dissatisfaction. Moreover, it is a very doubtful policy from the standpoint of the merchant. He doesn't like to devote his fall season to taking losses, but the sagacious dealer in a time like this will turn his stock over as fast as he can replace the goods at lower prices. By so doing he is at least getting a dealer's profit to apply on his losses. Sooner or later there will be a leader in every community who will see that his interest is served by this policy.

The Buyer's Turn.

The markets have been in the seller's favor for a long time, but the buyer has regained the position of advantage. Sellers are again competing for his favor and on the whole it is a more healthful situation when the buyer has a choice. All sorts of wasteful practices have developed and been tolerated because the cost could be passed on to the buyer and consumer. They will be searched out and eliminated. Nobody is as keen after economies as the man who must develop them to save himself from loss. Theoretical complaints are made to the effect that goods pass through too many hands between the producer and consumer, and that there are too many parasites upon industry. These complaints for the most part are made without intimate knowledge of the complicated modern business organization, but such parasites flourish in the boom periods and are hunted out as profits disappear.

The substitution of time work for piece work in the industries has been one cause of high costs to which no doubt early attention will be given. Good wages for honest work should be the rule, but less opportunity for shirkers.

There will be a lot of compensation for a turn in the times which compels everybody to scrutinize costs more closely.

Farm Products.

Farm products suffered a heavy decline last month, but prices have improved during the last week, with a little better foreign news and a feeling that some of the declines had been overdone. The drop in wheat from the middle of September to the middle of October was about 40 cents per bushel, carrying the December delivery at Chicago below $1.98 and the March delivery below $1.90. Upon these figures the market had made a gain at the end of October of about eight or ten cents on both deliveries. Corn for December delivery broke through $1 at Chicago in the latter part of September, and has since fallen to about 82 cents. Oats have lost three or four cents in the past month, closing with the December delivery at Chicago at about 54 cents. The Spring deliveries of both corn and oats have resumed their normal position above the spot and early deliveries.

Live stock markets have been lower during the month, and especially hogs, which are around the lowest prices reached since our entrance into the war.

The exports of meat and dairy products for the month of September, 1919, were $61,316,940 and for September, 1920, $32,174,599. For the first nine months of 1919, these exports were $966,346,925 and for the corresponding months of 1920, $414,579,369. It is needless to say that this falling off in the foreign demand has an influence upon prices.

The Wheat Situation.

The pre-war importations of wheat and rye of Western Europe were about 650,000,000 bushels, but consumption has been materially reduced. Upon this, Mr. Broomhall, editor of the Corn-Trade News, the English authority, has recently said:

> We have on several occasions called attention to the wonderful reduction in the consumption that can be effected by the compulsory lengthening of milling and the free use of substitutes. This has been peculiarly illustrated by the requirements of France. The wheat crop of the present year there is estimated at 237,000,000 bus. and the consumptive requirements are estimated at 344,000,000 if milled at 70 per cent extraction. If the extraction be increased to 80 per cent the requirements could be reduced to 312,000,000. A further reduction can be made by adding 10 to 20 per cent of rye or corn flour, bringing down the requirements to 272,000,000 so that only 40,000,000 bus. will have to be imported.

The Market Reporter, of the Bureau of Markets, Washington, in its issue of October 23rd, last, calculates that consumption in Europe last year was 26 per cent below the pre-war requirements. The Market Reporter on June 5, 1920, estimated the exportable surplus of wheat and rye in the exporting countries, for the crop year 1919-20, at 20,200,000 tons of wheat and rye, or about 666,733,000 bushels.

Europe's production has been higher this year than last.

Mr. Broomhall's estimate of the wheat importations of Europe in the crop year ending next June is 520,000,000 bushels, and of other importing countries 40,000,000 bushels; in all 560,000,000 bushels. Bradstreet's estimates that the

United States can spare 250,000,000 bushels in the crop year ending July 1, 1921. The Canadian surplus is estimated all the way from 160,000,000 bushels to 200,000,000 bushels, which would give at least 410,000,000 from North America.

Australia will harvest in December, and a letter to us from the well-known house of John Paxton & Co., Sydney, dated September 15, says of the situation there:

> Australia is this year having a truly wonderful season. The rainfall is far in excess of the average of the months during which it has descended. The only risk now is, that we may have too much of it during the Spring months (Spring in Southern hemisphere), to the injury of the wheat crop, but if it now clears up, and leaves us with a month or six weeks of our usual bright, dry early Summer conditions, there is quite a probability of the wheat crop reaching 140,000,000 bushels over all the Australian States. Naturally, the rainfall has assured a bountiful supply of feed for live stock, so that the Pastoral industry is now in a much more hopeful condition than it was 12 months ago. Unfortunately, the stock losses have been so heavy that there is likely to be a great deal more grass all over the country than there will be stock to devour it.

Rollin E. Smith's "Wheatfields and Markets of the World" gives Australia's requirements for bread and seed as 28,000,000 to 30,000,000 bushels, so that with no allowance for carry-over from last year or to the next year the Paxton estimate would give 110,000,000 bushels for export. The lowest recent estimate upon the surplus we have seen is 80,000,000 bushels.

The Argentine crop is also harvested in December and is likewise very promising at this time. Estimates upon the exportable surplus, range from 100,000,000 to 150,000,000 bushels, the latest we have is 112,000,000. Altogether the above figures, taking Canada, Argentina and Australia at the lowest estimates, would give about the same amount of exportable surplus available for Europe as was imported last year. This is without taking account of India, where the harvest is in March. The "Market Reporter" issued by the Department of Agriculture, Washington, D. C., in its issue of October 23 says that the India crop of last March yielded a surplus over home requirements of 75,000,000 bushels, according to official estimates, and a press dispatch states that the government has released 400,000 tons, equivalent to 14,920,000 bushels, for export. The remainder presumably is being held to await new crop development, as the India crop always is an uncertain one.

The annual average exports of wheat from Argentina and Australia in the five years ended with 1913 were 145,000,000 bushels. Upon this basis, and considering that the crops of all the countries in the Southern Hemisphere are subject to sudden changes from weather and pest conditions, it would take a close calculation to find wheat enough. This was the basis of calculations until recently. But the promising condition of the crops in Argentina and Australia, now nearing harvest, the prospective release of a supply from India, and finally a reduction in the estimate of Europe's requirements have altered the situation and in our opinion have been an important factor in the price decline which has occurred.

United States' Official Calculation.

The article referred to above, which appeared in the "Market Reporter," the official publication of the United States Bureau of Markets, is an exhaustive and important one, covering the European situation and the prospective surplus from exporting countries. We advise all parties who are interested enough to study the situation to send for a copy. It calculates the total imports of wheat and rye by Europe last year at only about 440,000,000 bushels, which is much less than other calculations have made it. It calculates the increased production of all cereals in Europe this year at about 10,000,000 tons, or 454,000,000 bushels, which would seem to indicate that unless consumption was on a larger scale Europe would not need anything from outside. Europe, however, has already imported 170,000,000 bushels in this crop year from North America alone. The Market Reporter says:

> In attempting to ascertain the probable world supply and demand for breadstuffs, the consumption of only 13 European countries has been considered.
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> However, it has been shown that the total European consumption of wheat and rye, for 1919 was 43,500,000 tons, or 26 per cent below pre-war average. This year Europe (13 countries) has a yield of 45,600,000 tons, compared with 33,100,000 tons for the same countries last year. Europe will, of course, use her own increased production this year and as much imported grain as she can afford to buy. It can hardly be expected that imports this year will be larger than for 1919, and hence the figure 13,100,000 tons is given as the tentative importation, based on 1919 imports.

This estimate of 13,100,000 tons comes to about 440,000,000 bushels, but includes rye, of which this country exported about 40,000,000 bushels to Europe last year.

Altogether these figures do not indicate a shortage of wheat, but rather a substantial surplus.

These are the best estimates we can find upon supplies and the probable needs of Europe. It is certain that Europe will not take any more than barely enough to cover its necessities, and it must be remembered that the price of wheat is still so far above normal that nobody will want to carry over any into the next crop year. Therefore supplies will be likely to come out quite fully and dealers in both wheat and flour will buy with a view to working off stocks before July 1, 1921. It is to be considered that in calculating the future there is always the possibility that Russia may come back as an exporter.

The big crops of corn and oats also have a bearing upon the price of wheat. This year's crop of corn is the largest ever grown in this country and there was a considerable carry-

over in farmers' hands. The present price of corn looks low as compared with the prices of the last year, but the markets are influenced by future probabilities rather than past conditions.

Competition of Canadian Wheat.

We are asked if the importations of wheat from Canada have caused the drop of prices in this country. We do not see that these importations can be an important factor, in view of the fact that both countries are on an exporting basis and competing with each other in Europe. Of course the Canadian crop is a factor in prices everywhere, but if it was all sent to Liverpool it would displace the same amount of our wheat that it does here. If it was burned or submarined, it would be put out of the way, but so long as it is offered in common markets with ours the particular market is as unimportant as whether Dakota wheat is sold in Minneapolis or Chicago. One hundred and seventy million bushels of wheat, inclusive of flour, have been exported from North America to Europe since the first of July, of which more than 90 per cent was produced in the United States. This country and Canada are practically one source of supply for Europe, and if Canadian wheat was prevented from coming into our markets it would go to Europe direct.

Cotton Situation.

The situation as to cotton is different in some respects. The price has fallen more than that of wheat, and the statistical position is stronger. The crop of this year is less than the consumption of the last year, which was not nearly as large as it would have been if the people of the world could have bought the cotton goods they wanted. The cotton crop is more dependent than any other crop we grow upon world markets, and it has been depressed by the threatening conditions which have existed in Europe during the past six months. The price during the coming year depends upon order and buying power in Europe. There is much to be said in favor of the policy of marketing the crop gradually, for world markets are in no condition to take it rapidly. Sentiment throughout the cotton trades is too pessimistic at the present time to favor the buying of cotton against future demands for goods.

A World Movement.

The agricultural districts have been much disturbed by the price declines, and the idea prevails that somebody is to blame for the situation. It is well for everybody to be on his guard against coming to conclusions of this kind from a one-sided view of the situation. Everybody has keen appreciation of his own troubles but knows comparatively little about the troubles of other people, but trouble is plentiful everywhere. If everyone will try to keep his temper and be reasonable and helpful it will be better for all. The general movement of commodities refutes the idea of manipulation. This world is too big to be readily managed, and yet so small that what happens to any part of it may affect every other part. It is a mistake to say that the farm products of this country alone have declined, or that farmers alone have lost money. Coffee and sugar have declined more than wheat and corn, and cotton cloth as much as raw cotton. The tendency is general.

It is true that this year's crops have been grown at a high level of costs, but costs do not determine selling prices when the prospect is that future costs will be less. Prices now are discounting future conditions.

There is not a farmer in North Dakota who will buy a machine this Fall at cost if he believes he can buy one next year for less money. The newspapers have reported that the management of the new Brotherhood National Bank of Cleveland, owned by the Brotherhood of Locomotive Engineers, who had contemplated the erection of a bank edifice, has decided to postpone the construction until costs are lower. The whole business world has postponed buying for the same reason, and it is better policy for each group to accept the situation without complaint than to quarrel with all the rest about what cannot be helped.

Carrying the Crops.

It has been well said that the portion of all crops which is not wanted for consumption until months in the future must be carried somewhere, and that it may as well be carried in the hands of the farmers as elsewhere. Indeed, that is the best place for it, if the farmer can afford to take the risk of further declines, and always subject to the obligation which rests upon the farmer as well as everyone else, to pay his current debts with reasonable promptness. The whole business structure rests upon the expectation that men will do as they agree, and that the flow of payments in trade will be kept moving. Anything like a general suspension of the payments which fall due in the regular course of business, compelling merchants and others to default upon their obligations, would make the whole situation so much worse that the farmers along with other people would be worse off because of it. Nobody is justified in refusing to meet his obligations when they are due because it will cause him inconvenience or require a sacrifice, for his doing so is likely to hold up a string of payments and cause inconvenience and sacrifice to many people. Everybody should do his part to maintain conditions as near normal as possible. A farmers' conference in Washington last week resolved in favor of selling to meet the regular demands for consumption, and this is putting it very well.

The Banker's Place in the Situation.

It probably will take less credit to carry the deferred supply in the hands of the farmers than in the hands of dealers, and that is the best place for it while conditions are unsettled. The fact must not be lost sight of, however, that regardless of present costs of production, and regardless of anybody's opinions, no one really knows what future prices will be, and it is no part of the business of a banker to take market risks. He has no right to do it. He is not handling his own funds, but trust funds, which he has agreed to return to the owners, and which are left with him on the express understanding that he will not take chances with them. The whole situation would fall into chaos if the public gained the idea that bankers were taking market risks. Whoever wants to carry the crops must expect to take the risks that belong with ownership.

It should be borne in mind in considering the banker's attitude toward loans that he is interested in making all the loans he can with safety. His income is from loans, and his lending power is in the deposits which the public keeps with him. His deposits go up and down with the prosperity of the community in which he lives. There is every reason why the banker, especially in regions where the chief interest is agriculture, should do everything in his power to aid the farmer in obtaining the largest possible results from his labors, and so far as we are advised he fully expects to do this.

The Outlook.

It was inevitable that this slump would come whenever rising prices reached the top and the public became satisfied that the future course of prices would be downward rather than upward. It came prematurely in 1919, because the influences favorable to a spurt of private expenditures at that time were too strong to be held in check. It is better that the check should come now than a year later. Although the reactionary swing has gone farther than most people expected it to, there is no reason for extreme pessimism about it. Undoubtedly some prices have gone too low already. It is unreasonable to suppose that prices are going back at this time to pre-war levels, and where they do it is safe to say that the things are too cheap and can be bought to advantage.

Grounds for Confidence.

There are good reasons for confidently believing that this country is not going into a long period of depression. Such experiences in the past always have followed long periods of internal development, including extensive construction work, such as railroad-building, town-building, etc. Our periods of prosperity and credit expansion have been of this character, and it has usually happened that the movement has overrun the needs of the country at the time, and a period of growth was required afterward to bring the country up to its new facilities. This was the case in 1873 and 1893, the two most important crises of our recent history. In the period following 1893 recovery was delayed by the controversy over the money question.

The boom period which has been responsible for the existing expansion of credit and high prices was not due to internal development or construction work; on the contrary it interfered with normal development and improvements, and the facilities of the country are behind its needs. Never before was there so much work in sight needing to be done, or so many opportunities in the world outside. The immediate problem is that of price readjustment. It is not a case of exhaustion or of waiting to grow up to investments that have been made. The new work would not go forward upon the level of costs created by the war, and regarded as abnormal and temporary.

Although the buying power of the agricultural districts has been affected by the fall of farm products the fact remains that the yield of these products is the largest on record. The yield is an important factor in the decline and in some crops it will compensate in large part for the decline. In corn and oats the farmer sells the surplus after providing for the keep of his work animals and other live stock; on a short crop the surplus is small, and may not bring much even at a high price, but on a large crop all of the surplus is for sale. If wheat is low all farmers will pay less for flour, and if all goods come down the farmers' loss of purchasing power will be correspondingly less. The decline in farm products has been so sudden as to give a shock, but measured by prices in the past still gives great buying power.

Foreign Exchange as a Factor.

In this connection, however, we would sound a note of warning which we have often sounded before. The foreign exchanges have been working lower, and if they should break seriously enough to compel a still greater curtailment of exports the effect will be to pile up commodities in the home market and depress prices. Who can doubt that the markets would be in better condition today if Great Britain and France had not been obliged to pay the $500,000,000 joint loan in New York on October 15th. They paid with a renewal on the part of France of $100,000,000, but if they had not paid $400,000,000 they would have had that much more with which to buy our products. People cannot always pay their debts and buy more goods at the same time. We say and think that we cannot float large foreign loans, but the decline in the value of farm products and resulting disturbance to industry in the last two months has been enough to float more loans than Europe has even thought of asking.

The $100,000,000 foreign banking corporation under the Edge law projected by the American Bankers Association and the other corporations proposed under that act are very much needed, and should be put through promptly. We hope that this will be done now that the need has become more apparent.

Few Failures.

The reserve resources and recuperative powers of the country are far greater than at any previous time when a check of this kind was experienced. The credit situation is stronger. The banking situation is wholly different, which in itself is a factor of great importance. In view of the extent of the price declines the comparatively few cases of embarrassment among business concerns of importance is significant.

There is no gainsaying that the fall season has been seriously demoralized by the unsettlement which has developed. The buying power of a great many people in the aggregate has been impaired, measuring their ability by the prices that have been prevailing. The general feeling that these prices could not be sustained has been thoroughly confirmed; the public will have nothing to do with them. When the general level is reduced, so that a common basis for trade is restored, conditions are such that business will be quickly resumed. That cannot be accomplished now for the fall season, but if business men will set about getting their houses in order for spring trade on a regular basis the situation should be well stabilized by that time and the field cleared for recovery and a long period of prosperity.

Banking Conditions.

The New York time money market is practically unchanged, eight per cent being the ruling rate upon commercial paper and loans not governed by the usury law. The banks have been on the lookout for some signs of liquidation, but none have appeared as yet. They are borrowing heavily of the Federal Reserve bank and the latter continues to be debtor to other Reserve banks. Liquidation over the country generally will have to go far enough to enable the member banks to reduce their loans at the Reserve banks materially before reduction in interest rates can be expected. There is no early prospect of that. Call money rates have fluctuated from 6 to 10 per cent.

The loans of 822 member banks reporting to the Federal Reserve Board were at their highest point on October 15, when the aggregate of loans and investments was $17,283,996,000, against $17,188,604,000 the week before, and $17,073,065,000 on April 16 last, six months ago. The aggregate earning assets of the twelve Federal Reserve Banks on October 15 were $3,421,976,000,000, the highest in the history of the system. These figures compare with $3,158,570,000 on April 16, and give answer to the charge that the Federal Reserve system has been contracting credits.

The Inflation of Credit.

The most conclusive answer to this charge and to all of the inflationist criticism of recent banking policy is furnished by the figures made public by the Comptroller of the Currency on October 15, for the loans and discounts of all banks in the United States, excepting the Reserve banks.

Once every year the Comptroller compiles a statement showing the condition of all banks, including those doing business under state charters. His statement given out on the 15th ult. is of June 30, 1920, and shows that on that date the total of loans and discounts of all national and state banks, trust companies, savings banks and reporting private banks was $30,891,693,000, an increase of $5,805,736,000 over June 30, 1919.

These are startling figures, and they do not show all of the increase, for while the rediscounts of member banks with the Federal Reserve banks are included, the open-market purchases and other holdings of the Reserve banks are not. The Secretary of the Treasury, addressing the American Bankers Convention a few days later, stated that the loans and discounts of all banks had increased *since the armistice* in the round sum of *seven billions of dollars.*

As the total loans and discounts of these banks on June 30, 1917, (the date nearest to our entrance into the war for which figures are obtainable) was $20,641,427,253, it appears that the increase since the armistice *has been twice as much as while we were at war.*

These figures are offered for the consideration of the persons who have been talking about the contraction of credit or who hold that credit should have been granted more freely. Of course the former are without standing, for there has been no contraction, and as for the latter the facts and the argument are heavily against them.

Inflation Does Not Increase Production.

Upon what theory can it be urged that the country has needed so much more credit to handle its business in the period following the armistice than during the war? The physical volume of business has not increased; production has not increased; the output of coal has not increased; the tonnage handled by the railroads has not increased. The only reason that can be given is that wages and prices have been advancing, and every student of monetary science who has any standing as an authority will agree that an increase of the amount of money in circulation, or of bank credit circu-

lating as money, will have of itself the effect of raising prices. If the medium of exchange is increased in volume without a corresponding increase in the amount of commodities to be handled the medium will depreciate, as we have seen repeatedly in our national experience.

The phenomena of tight money does not prove that there is a lack of money to do the business of the country. Tight money will result from rising prices and from a demand for goods in excess of the supply, causing a competition among buyers, who run up prices on each other. That is precisely the situation which existed in this country last year.

Effect of Competitive Demands.

This country last year was trying to do more business than it was capable of doing. It was trying to make up all the arrears of war-time forthwith. There was more work to be done than there were workers to do it, and greater demands upon the industries than they had the equipment and facilities to meet. In a situation of this kind the scarcity is exaggerated by the efforts of buyers to make purchases in different quarters and through different agencies. Every producer and dealer is persuaded that he can do more business if he is given more credit to work with, but if they are all given more credit to work with, the effect is not to increase production, which is already at capacity, but simply to finance their scramble for labor and materials, with the result that wages and prices are driven higher.

There can be no relief from tight money so long as prices continue to rise, and no end to rising prices so long as more credit is being granted, until the situation eventually gets out of balance, consumption somewhere is checked, confidence is disturbed and the whole artificial structure comes down in a crash.

The Old Story of Debts and Prices.

Every one who is familiar with the course of credit expansion and collapse knows that an abnormally large volume of bank credit and an abnormally high level of prices together create a dangerous situation. Every business crisis ever experienced in this country or elsewhere has come under those conditions. And they have all come in the face of a clamorous demand for more credit to "increase production" and for other "legitimate business." The trouble always is that rising prices do not go on rising forever; sooner or later they turn into falling prices, which result in shrinking assets while the indebtedness against those assets does not shrink at all. The inflationists are always wanting facilities for creating more indebtedness, and the fact that an increase of seven billions since the armistice has not satisfied them should be ample proof that their wants are insatiable.

Inflation Outside of Reserve Banks.

The Federal Reserve Board was aware of the danger inherent in continued expansion, but delayed action upon interest rates until November, 1919, although it had uttered warnings before. On October 31, 1919, the total earning assets of the Federal Reserve banks were $2,824,156,000, and on January 2, 1920, $3,181,808,000. Since then there has been a steady effort to hold the situation in check, perhaps all that wisely could be done on the part of the Reserve banks, but the above figures show that with 30,000 independent banking institutions in this country a vast expansion of credit has been possible under the Reserve act and amendments without the direct aid of the Reserve banks. Of the $5,800,000,000 increase in bank loans since June 30, 1919, only $818,237,000 has been through the facilities of the Reserve banks, and of the $10,250,265,747 increase since June 30, 1917, only $2,777,083,000 has been through them. The remainder has been handled by the individual banks, but made possible by the reduction of reserve requirements provided for in the Reserve act, and by the concentration of reserves and currency-issuing powers of the central banks. Evidently deflation will be a long ways from complete when the Reserve banks are deflated.

The Inflation Period Has Culminated.

It is safe to say that the danger of further inflation is over for the present. The decline of prices will put an end to the appeals for more credit for the purpose of buying things and starting things. People do not care to borrow money to buy land, speculate, build extensions or go into new enterprises when prices are falling. They will proceed now to earn and save and apply the proceeds on their debts. Therefore it may be expected that as liquidation proceeds money will tend to become easier, until the strain which has been felt since 1917 is quite removed. Of course it is going to take a larger turnover of products to pay debts than under high prices.

It is a significant fact that for the first time in the history of this country a period of expansion has culminated and prices have turned decisively downward without a banking panic. Heretofore the turn has been always accompanied and the downward pace accelerated by a collapse of bank credit. This time, the situation, instead of being aggravated by the efforts of thousands of banks to reduce their loans and increase their cash reserves, will be supported by an adequate banking system. Business houses entitled to credit will continue to receive it. Valuations will have to undergo revision, but the whole financial situation is altogether different from that which has existed at any other time of business reaction. The business community is protected from the shock, alarm and stress which result from a general contraction of credit. Not only has there been none up to

this time, but there will be none; liquidation will follow its natural course as shaped by conditions in the markets.

It is a principle of modern banking that the time to restrict credits is when prices are rising and credit expansion is under way, and that after the turn has been definitely made, when business is known to be receding, it is sound policy to grant credit freely to concerns of assured strength, to maintain stability and the orderly processes of trade.

The Fundamentals of Civilized Society.

In his reply to the request of some of the anthracite coal miners that he should set aside the findings of the late arbitration commission in that industry, President Wilson said that "by all the laws of honor upon which civilization rests the pledge given by the miners to stick by the award should be fulfilled." He stated the case very effectively and it is well in considering these questions into which class prejudices easily enter to get down to fundamentals and consider frankly the state of mutual dependence which exists throughout modern society.

The great demand of the time is for a more abundant supply of the comforts and good things of life for the masses of the people. It is the desire and hope of all right-minded people that the standard of living shall be constantly raised. On the other hand the growth of population which is steadily proceeding tends to make it more difficult to maintain the present standard of living, to say nothing about raising it. The facts sustaining this statement are within the observation of all. Our best and most available lands are occupied. Agricultural experts tell us that a large part of these lands are being robbed of their fertility; the farmers are not putting back the elements that are being taken out, and if this policy is continued production will decline. The most easily-worked supplies of coal and other minerals are taken first, and already the average cost of mineral production is increasing. Our stores of mineral oil outside of the shales will not last over 20 or 25 years, and the supply from shales will be more costly. The situation as to timber is familiar, but has been succinctly stated recently by Colonel W. B. Greeley, of the United States Forestry Service, as follows:

> "Three-fifths of the original supply of timber in the United States is gone and every year we are taking out of our forests four times the amount of wood that we are growing in them. Moreover, the availability of the remaining timber is rapidly becoming less. Half of the remaining timber of continental United States is in the three States bordering the Pacific Ocean. And the true index of timber depletion is not the quantity that is left but its availability."

These stores of natural wealth, which were in preparation for thousands of years, have a vital relation to the welfare of the population. Everything that ministers to physical comfort and well being is provided by the work of our industries upon these natural products. We cannot get along without these products and as the supply is diminishing while the demand is increasing there seems to be no escape from the conclusion that the cost will continue to increase. Certainly it will do so unless the methods of production are so improved as to reduce the labor costs.

Society Must Be Interdependent.

It is true that there are parts of the world where the natural resources are as yet practically untouched, but they will be opened up slowly and only as higher prices stimulate their development. The fact that they are yet in reserve does not essentially alter the proposition that society instead of advancing to higher standards of comfort is destined to suffer under the steady pressure of increasing scarcity, except as by research and invention and by the higher and more effective organization of industry this baleful tendency is overcome.

In short, society must keep its attention fixed constantly upon the means of increasing production. It cannot afford to disregard the incentives which, acting generally upon the population, have the effect of stimulating production. It cannot afford to neglect the advantages afforded by highly developed industrial organization, and by specialization, and the use of power and machinery.

Modern Organization Requires Higher Ethical Development.

This higher organization of society, while affording great possibilities in increased production, will not realize them unless the workers in all the various occupations understand the system, appreciate the benefits they personally gain from it and recognize that they have certain responsibilities and obligations under it. The individual who devotes himself to any single trade or profession for the purpose of acquiring skill, does so upon the understanding that he will be able to exchange his services for the products or services of others upon such fair terms as would naturally result from the voluntary and free distribution of the population in the various occupations. The whole scheme of organized society is dependent upon its effectiveness in mutual service. It is a co-operative system. It requires that the population shall not only have a certain degree of intellectual development but a certain degree of moral or ethical development. The people must understand the binding force of mutual obligations. If any group, having obtained control of a given trade or occupation, the services of which are necessary to the maintenace of life or comfort throughout the community, proposes to suddenly discontinue such service unless certain conditions of its own making are complied with, the fundamental conditions of the whole social compact are violated.

Shall We Go Back to the State of Life in China?

If demands of this kind are to be commonly made, mutual dependence will become dangerous and impracticable. It will have to be abandoned and society will have to go back to simpler living, longer hours of labor, and more primitive conditions, like those of China, or it will have to organize to meet such contingencies by means of trained volunteer forces, supported by the power of public authority. Either of these remedies of course, would greatly reduce the effectiveness of industry, to the injury of all.

Any system or policy that puts it in the power of a few ignorantly or wantonly to do vast injury to the community, or to subject the community to their arbitrary will, is intolerable. In the nature of things it cannot endure, and those who attempt to impose it upon others will fail and lose by so doing.

The work of a coal miner requires knowledge gained by experience and training. The coal mines, as a rule, cannot be operated by workers picked up in an emergency from other occupations. The public expects to pay the coal miners a reasonable compensation for their labor and for whatever hardships and risks the work may involve. There can be no infringement of the right of an individual miner to abandon the occupation whenever he can better himself or for any reason desires to make a change, but the idea that the miners as a body may take advantage of the necessities of the community to dictate national policies that are properly within the authority of the regular law-making bodies, as the miners of Great Britain recently threatened to do, or dictate the terms for mining coal, is unjustifiable upon any principle of democratic society or of co-operative social relations.

Conservative Influences in Labor Ranks.

Notwithstanding the increase of radical agitation both in this country and Europe, with occasional ill-advised actions into which workmen are drawn by revolutionary leaders, there is good reason for confidence that a knowledge of the principles set forth above is permeating the masses of the people. There is a growing appreciation among both workmen and managers of business of the rights of the public. The "one big union" idea which has fascinated some of the working people because it seemed to offer the power to bring all society to its knees is not convincing on close examination, for the reason that nine out of ten of those who would be brought to their knees would be of the working class. The threat of a coal strike in England, backed by a strike of railway employes and other big unions has been very menacing, but the most responsible labor leaders who saw the common disaster that would result labored earnestly to prevent it. The study of the social problem that is being given by the labor leaders makes it more improbable with every year that passes that any revolutionary movement will succeed in western Europe or America. And it should not be thought for a moment that the labor leaders have been the only people who needed to develop the vision of common social interests. There has been lamentable ignorance upon the subject in all classes.

Farmers' Organizations.

The farmers' organizations north and south are very active in increasing their membership and developing plans for obtaining greater control over the prices of farm products. In the south the American Cotton Association has been pledging its members to hold cotton for 40 cents per pound up to November 1st, with an additional one cent per pound for each month thereafter, and to plant 33⅓ per cent of the cotton land in foodstuffs next year. There is good reason for believing that it is sound policy for the southern farmers to diversify their crops more than they have done in the past, at least to the extent of growing the food required for home consumption. Moreover, it is doubtless good policy for the cotton growers to market their products slowly this season, on account of the depressed state of the cotton goods market. The wool growers have been forced to follow the same policy in order to prevent the market from being glutted. There can be no criticism of a proper adjustment of supplies to demands.

Too Early to Plan Curtailment.

A word of caution, however, against hasty action may be in order. The crop is not yet harvested and conditions may undergo much change before planting time next spring. Governor Harding, of the Federal Reserve Board, gave good advice when he suggested that the South take steps to finance the marketing of its products in the countries of Europe which need it but are without the means of making purchases. The world needs all the cotton that can be grown; the problem is to get the industries of all countries into operation and effect such an exchange of products as will enable it to be sold. If the American Cotton Association will assume leadership in such a constructive effort it will render great service and no doubt the whole country will give aid.

It is too early to pass resolutions for crop curtailment, and what good will it do to plant less cotton and more wheat or corn when the producers of these grains are claiming to be as bad off as the producers of cotton? Will it help the general situation, or put the wage-earners in position to work for less wages, to have cotton lands or wheat lands stand idle or grow up to weeds? If everybody will do in this emergency what is best for the common good he will find his own interest served by the policy.

Marketing Problems.

In the north the American Farm Bureau Association has created a committee upon marketing of seventeen members, to make a study of the marketing of farm products and report. It is proposed to make an extended investigation, but although there is evidently much sentiment in favor of an elaborate plan of operations no hasty action is likely to be taken. It is well to have the inquiry made, for if conducted with good judgment it will clear up a good many misunderstandings. Moreover, if the farmers can develop a co-operative system of marketing that will accomplish economies and narrow the margin between producer and consumer they will render a great social service. In the great co-operative organization by which our wants of all kinds are supplied, the more the people of each branch of industry know about all the other industries, and about all the methods by which the exchanges are made the better. Every individual who plays any part in the system should expect to give an account of himself and show that he renders adequate service for the pay he receives. If any so-called services can be dispensed with, or any middlemen can be eliminated, out they should go. Society has been doing that from the beginning and will continue to do it.

No General Over-Production.

It is pertinent, however, to mention one danger which attaches to the organization of groups. The policy which seems to promise the most direct results is usually that of curtailing production. The people in every line of business usually think that there is too much of their commodity on the market. The workmen in every trade think there are too many in their trade. The natural suggestion is to limit the supply—cut down production, reduce the hours of labor, restrict the number of apprentices permitted to learn the trade, etc.

There is such a thing, of course, as over-production of a given commodity. It is conceivably possible that too many men may learn a given trade. The industrial organization may get out of balance; it not infrequently does, but it is important to bear in mind that there never has been a general over-production of the necessaries and comforts of life. On the whole there has always been under-production; the problem which society is seeking to solve is that of increasing production. Therefore every plan which proposes to benefit a given group by limiting production is properly under suspicion. Since we supply our wants mainly by exchanging products with each other, it is evident that in limiting production for the purpose of raising prices we impair the purchasing power of our customers. If the workers in all the industries cut down production in order to raise prices, there will be less of everything for everybody. Prices will be high, but they will benefit nobody and be a burden to everybody. Progress does not lie that way.

The Principles of Social Co-operation.

The true principles of social cooperation never have been set forth more clearly and effectively than in the resolutions adopted by the 400 delegates from 28 states who formed the American Farm Bureau Federation last March, when they said in part:

"We hereby speak out that the world may hear our denunciation of radicalism in every form. We stand for one flag, the stars and stripes, and we will have no other flag before us. We stand for law and order and deplore the present-day tendency to disrespect fundamental laws and constituted authority.

"The world war resulted in a great waste of labor. Increased production is essential to national well being. We view with great concern the tendency to unduly shorten the hours of labor everywhere with resulting decreased production and individual efficiency. We stand for higher individual efficiency and believe that every citizen, regardless of his station in life, should have open to him every incentive for the development of his full power. Therefore, we condemn any system or practice which tends to set up the mediocre man as the standard in any class or group and hereby declare that it is un-American to fix by rule or law the accomplishments or limitations of any men or women within our gates.

"Let us return to the true American principle that every citizen is entitled to and should receive remuneration for his services in proportion to his energy, efficiency and responsibility. In determining a compensation, we believe that the result of the day's work, rather than the hours thereof, should be of paramount importance.

"We pledge the farmers of America to the largest possible production consistent with good husbandry, with a view of relieving the world's dire necessities and invite the workers of all other industries to join us in this spirit of service."

The occupational organizations may serve a good purpose; they surely will when conducted in the spirit of the above declarations, but the class spirit must be guarded against. Such organizations must be controlled by the purpose to improve general social conditions. The scheme of guild organization, under which each trade or group would control production in its line and fix its own compensation, is fundamentally wrong. It would divide society up into watertight compartments, and develop antagonism and contention instead of cooperation.

The best regulation of compensation in all the occupations is free movement between occupations and the free exercise of individual judgment. The interests of the entire body of the population should be kept in common to the greatest possible extent.

Cooperation and Reciprocity.

The whole social order is founded upon the principle of cooperation and reciprocity. If each person will comprehend that the market for his own products or services is dependent upon the ability of others to buy them, he will understand that the largest degree of prosperity for any group or class is obtainable in a state of general prosperity, when production and the exchanges everywhere are well-balanced.

It is a reasonable expectation that a readjustment of wages and prices must follow the war period, and it is apparent that this readjustment has begun. The farmers have already taken a

heavy shrinkage in the prices of their products. They think it hard that their turn should come among the first, but although the farmer is not a plutocrat, he is a proprietor, an operator upon his own account, and people who have capital enough to be proprietors, be they large or small, are in better position to take the brunt of a readjustment than the wage-earners of the towns. It is impossible to ask the latter to accept wage-reductions until a reduction in living costs has taken place, and farm products are the leading factor in the cost of living.

On the other hand, the price of farm products having declined, it becomes a matter of common justice and also an essential factor in the maintenance of employment for the wage-earning class that the prices of what the farmer must buy shall come down in like proportions. Are they going to do so? That is the critical question at this time.

The Wage Question.

Every one is entitled to have his own opinion of the present industrial situation. A very influential labor leader has declared that labor must "resist, resist and resist to the last" every attempt to reduce wages, and this is the position which organized labor is understood to occupy. The idea doubtless is that having won the advanced position represented by the present wage-level they intend to hold it at all hazards. It is, however, a mistaken idea, for if prices generally are falling and other people in the industrial circle are taking smaller pay for their services or products the workers who refuse to accept any wage reductions are really asking for more pay. Instead of being on the defensive, trying to hold their own, they are attempting to improve their position at the expense of other workers.

Keeping Industry in Balance.

Furthermore, they will be attempting the impossible. They overlook the interdependence of industry. Consider the relations between manufactured products and farm products. The market for farm products is largely in the towns and the market for the town industries is largely on the farms. About one-third of the people of this country live on the farm. The exchanges are made by means of money payments, but unless farm products are going to buy about as many town products in the future as heretofore, it does not require a professor of political economy to see that there will be a falling off in the consumption of town products and in the demand for labor to make them. And if 25 per cent of the labor so employed should find itself walking the streets because trade had fallen off, it will be up to the labor leader to explain the advantages of that situation over a moderate reduction of wages which would have kept the farm and factory in balance, with better living conditions for everybody. Goods are not going to be made unless they can be distributed, and distribution cannot occur except upon a fair basis of exchange for all products. Wages have been advancing for five years under the influence of the law of supply and demand, which was also advancing the prices of farm and other products. It will be a serious mistake for the labor leaders to think that they accomplished all this and that they have control of the situation regardless of the law of supply and demand.

Opposing Economic Law.

At its last annual convention held a few months ago at Montreal, the American Federation of Labor recognizing the probability of a slackening in the demand for labor proposed as a remedy that the work-day should be reduced to six hours. This would artificially maintain the prices of factory products at or near the war level, while farm products would be taking the natural decline. Of course the farmers are not going to stand for that, and ought not to. If they adopt the same policy of restricting the hours of labor and volume of product, prices will be gloriously high all around, and everybody will have plenty of leisure, but there will be very much less to eat and to wear and less of all the things which the people are wanting. Class organization will have run itself into the ground. The gains in living conditions which have been accomplished by the development of machinery and the application of capital to industry will have been sacrificed.

Organized labor can do much for its members and for the community if it works in harmony with the economic law, but will do nothing but mischief if it works against that law. It does not pay anybody to spend his energies in trying to make water run up hill, and anyone who wants to accomplish something in this world will find that there is an advantage in working with the natural forces and for the general interests rather than in opposition to them.

Foreign Trade and Exchange.

Foreign trade is dull so far as new business is concerned, and our relations with South America are practically paralyzed by the fall in the value of South American products and the consequent derangement of the exchanges. Although trade with Europe has been embarrassed for the past year by the high premium on the dollar our exchanges with South America have been on a fairly even basis until recently and much of the time with the dollar at a little disadvantage in purchasing power. But the fall in coffee, wool, hides and cocoa to a point where they are next to unsaleable has taken from those countries the ability to buy of the United States. The lower grades of Argentine wool if saleable at all are below pre-war prices. Cocoa has sold within the last week in this market as low as five cents per pound, although it has been as high as 28 cents within the last two years and a year ago was about 18 or 20 cents. Coffee is down 60 or 65 per cent from the high price.

Hides have sold below pre-war prices but show some symptoms of recovery. These figures signify that little is doing in imports from South America, and exports to those countries are at a stand-still.

The Argentine government has exhausted the fund of credit which it accumulated here during the war, and exchange on New York in Buenos Aires is at a premium of approximately 24 per cent. In consequence of the situation collections throughout South America are very slow.

The drop in sugar has caused a crisis in Cuba, and for the protection of the banking situation there the government has declared a moratorium on bank deposits until December 1st. Negotiations are under way in this market for loans for Cuba, Brazil and several other countries to relieve the situation.

September Exports and Imports.

The September statement of exports and imports makes a surprisingly good showing in view of the known conditions, for which cotton, wheat and mineral oil were largely responsible. Both cotton and wheat exports in the month are understood to include considerable amounts purchased earlier in the season. The figures by principal groups are as follows:

	Month of September	
Groups-Imports:	1920.	1919.
Crude materials for use in manufacturing	$102,354	$201,548
Foodstuffs in crude condition and food animals	38,140	62,927
Foodstuffs partly or wholly m'f'd	82,885	53,428
Manufactures for further use in manufacturing	63,589	59,011
Manufactures ready for consumption	73,755	54,481
Miscellaneous	2,940	4,050
Total	$363,666	$435,448
Exports.		
Crude materials for use in manufacturing	$119,176	$89,341
Foodstuffs in crude condition and food animals	108,174	66,944
Foodstuffs partly or wholly m'f'd	58,742	124,520
Manufactures for further use in manufacturing	68,075	92,505
Manufactures ready for consumption	240,420	206,620
Miscellaneous	482	754
Total domestic exports	$595,072	$580,689
Foreign merchandise exported	10,218	14,524
Total exports	$605,291	$595,214

The usual table of exchange rates follows:

	Unit Value	Rate in cents Sept. 27	Rate in cents Oct. 27	Change from par	Depreciation
Canada	1.00	.9020	.9050	.0950	9.50
Germany	.2382	.0163	.0141	.2241	94.08
Italy	.1930	.0420	.0375	.1555	80.57
Belgium	.1930	.0706	.0675	.1255	65.03
France	.1930	.0668	.0635	.1295	67.10
England	4.8665	3.4925	3.49	1.3765	28.29
Switzerland	.1930	.1608	.1575	.0355	18.39
Holland	.4020	.3108	.3060	.0960	23.88
Denmark	.2680	.1375	.1375	.1305	48.69
Norway	.2680	.1370	.1375	.1305	48.69
Sweden	.2680	.2002	.1950	.0730	27.24
Spain	.1930	.1470	.1395	.0535	27.72
Argentine	.9648	.8500	.80	.1648	17.08
Japan	.4985	.5140	.5125	*.0140	2.81

* Premium.

Call Loan Interest Rates.

There is no need for acrimony in the discussion over interest rates on call loans. The Comptroller of the Currency has pronounced opinions upon the subject and feels that it is his duty to make them public and nobody ought to complain because a public official does what he believes to be his duty. The effect of high or low interest rates, however, is an economic question over which persons may honestly differ, and therefore a temperate discussion of the subject is perfectly proper, no matter which side of the argument one may take, assuming that a sincere effort is made to present relevant facts and throw light on the subject.

Call Loan Market.

It is said that in no other money market of the world do call money rates fluctuate as widely or reach as high a figure as in New York. If this is true, as we believe it is, it is not conclusive, because there is no other call money market like that of New York. There is no other market in which any such an amount of money is loaned on call. It is dependent upon the stock market and nowhere else is there such a stock market as here. The call money market owes its development also to the character of our banking system before the reserve system was established; banking reserves were largely employed in this manner. Under these exceptional conditions a body of lenders and a body of borrowers have been developed who find that it suits them to do business on this plan. It is a voluntary arrangement on both sides, entered upon with a full knowledge of the conditions, there is no law against it, and so they have gone on dealing with each other from year to year. Dealings of this kind have not developed in like magnitude elsewhere for the reasons named above and because borrowers elsewhere are timid about commitments at call, and afraid that the fluctuations might be wider there than they are here, which probably would be the case unless a very large supply of funds was always available, and from numerous sources.

Use of Call Loans.

The money loaned on call in New York for the most part is used in carrying stocks or bonds on margins. Those who have a proper understanding of the functions of the Stock Exchange know that it renders an important public service in furnishing a ready market for securities, thus assisting in their distribution and facilitating the finding of capital for useful enterprises. This function is promoted by the presence here of a fund of capital available for loans on securities. We do not deprecate or undervalue this employment of capital, but it sometimes occurs that more capital is so employed than is good for the market itself or for other interests with which it may compete for funds. We seem to remember, with-

out recalling dates or persons, that criticism upon this score has been directed at Wall Street, but we do not recall that even the people who are criticising high rates upon call loans have ever classed marginal trading as a "vital industry."

While the government loans were being floated during the war the public authorities frowned upon the absorption of funds in Stock Exchange operations, and properly. There was not the same need as in normal times for the services of the Exchange as a distributor, for comparatively few new securities were being brought out. Moreover it was desirable that speculation should be held in check. After the armistice this restraint was relaxed and in the booming prosperity of last year trading upon the Stock Exchange became very active and loans upon listed collateral increased rapidly until they became a matter of concern to the bankers. The pressure for loans was great and increasing from all quarters. There was not enough credit to go around to all applicants and as between the Stock Exchange and the industries the latter were given the preference. The rise of stocks under the influence of speculation was considered a dangerous symptom. It was not only absorbing credit needed elsewhere, but the marginal accounts were an element of weakness in the whole financial situation. A panic starting on the Stock Exchange might do much damage outside, in view of the extended state of loans.

Withdrawal of Funds.

The banks began to reduce the call loans. Interior banks, as their local demands increased, gradually withdrew the funds they had in the New York market. With rising costs, corporations which had been lending in the call market found themselves in need of the funds and withdrew them in part. This process continued until the "street loans," as they are called, were reduced from about $1,500,000,000 to approximately one-half that amount.

Was the course pursued by the banks a justifiable and wholesome policy or not? It was not liked in "the street" at the time, but today "the street" realizes that it was good policy for all concerned. "The street" is better off for having liquidated last Fall and Winter than it would have been with more credit to use. It beat the industries to it, saved money and has had no responsibility or blame for bringing on the reaction.

The Official Showing.

Comptroller Williams in the abstract of his annual report recently given out says:

> The reports of all national banks of the United States as of June 30, 1920, as recently analyzed, show an enormous expansion in their holdings of mercantile paper and of discounts made on the strength of one or more endorsements, and in loans made upon warehouse receipts, etc., and a marked reduction in money loaned on bonds and stocks.

This describes the change which the bankers accomplished during the year. How was this withdrawal of funds from Stock Exchange use conducted? There are two ways of reducing the volume of loans: One is by peremptory action, refusing to renew, requiring debtors to repay forthwith; the other is by raising the interest rate. The former is a violent method liable to cause serious disturbance. The latter gives the borrower time to adopt a policy and make new arrangements. It was in the public interest that less capital should be employed in the call market and it was necessary that borrowers should adapt their affairs to this policy, but it was advantageous to them to be allowed to borrow from day to day even on high rates until they had adjusted themselves to the change. If they paid 25 per cent, they paid 1/365th of 25 per cent for one day, and were under no obligations to borrow for a day longer than they wanted to.

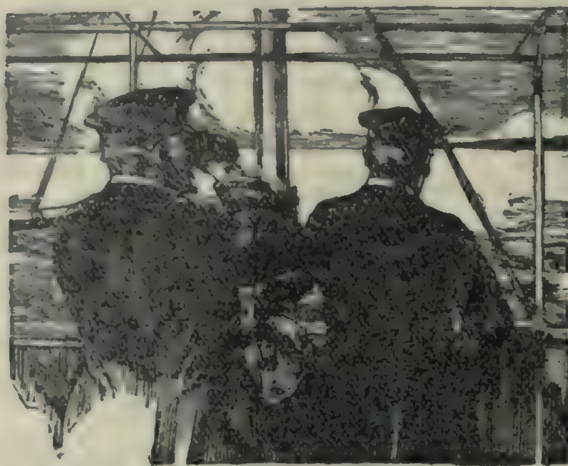
A reduction of the amount of money available inevitably causes a rise of rates unless the demand falls off. The borrowers themselves advance the rates by bidding to attract funds to take the place of what has been withdrawn.

A conference of farmers in session at Washington is reported to have passed a resolution condemning the New York banks for lending at such high rates because the effect was to attract money from the country where it was needed for loans to farmers. They did not understand that it was the withdrawal of funds for that purpose which made the high rates, or that if the New York banks had refused to lend at the rates named the rates would have gone still higher and the temptation to country bankers have been thereby increased.

The "renewal" rate upon call loans is the rate at which loans stand over to the next day, and is the rate which most of the call loans bear at any time. We give below the average renewal rate for each month beginning with October, 1919, and for comparison give another column showing average rates for 90 day loans on mixed collateral over the same period. There is no fixed rate on time loans corresponding to the renewal rate, but we have taken averages which are approximately correct. Attention is invited to the fact that from October to February, while loans were being reduced in volume, the call rate ruled above the time rate, and that since February the call rate has been below the time rate:

Average Rates of Interest.

	Call loans, Renewal rate	Time loans, Mixed collateral
October, 1919	7.42	5.98
November, 1919	10.43	6.30
December, 1919	8.09	6.30
January, 1920	8.61	6.88
February, 1920	9.86	7.98
March, 1920	8.13	8.48
April, 1920	7.48	8.33
May, 1920	7.09	8.00
June, 1920	7.50	8.00
July, 1920	8.39	8.35
August, 1920	7.26	8.70
September, 1920	7.06	8.47
October (22 days)	7.62	7.79



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Economic Conditions
Governmental Finance
United States Securities

New York, December, 1920.

General Business Conditions.

THE downward movement of prices, of which the first signs appeared last May, and which became quite evident in October, has become more general and precipitate in the last month. The hopes that had been entertained that the descent to a lower level would be accomplished so gradually that the losses would be covered by current profits, without serious interruption to business and without unemployment, have proven illusory. Rarely, if ever, has there been so great a decline in commodity prices in so short a time. The twelve basic commodities included in the price table of the Federal Reserve Bank of New York, to-wit: wheat, corn, hogs, sugar, pig iron, copper, lead, lumber, petroleum, cotton, hides and rubber, have declined on the average 33.5 per cent since the high point of the record in May.

Petroleum is the only one of this group which has not suffered severely, and owing to the growing demand for fuel oil, gasolene and the other products it has scarcely suffered at all. All of the others have been forced lower during the past month, and ended the month without improvement.

The Bureau of Labor figures, October average, based upon about 325 commodities, were 7 per cent below September, and 17.3 per cent below the May average. As compared with October, 1919, the table shows a decline in articles of food of 3½ per cent, cloths and clothing nearly 18 per cent, and farm products 21 per cent. Bradstreet's table of consolidated prices is down 24.8 per cent from its peak, which occurred in February.

Industry and Trade.

Industrial activity was generally well maintained throughout October, notwithstanding the reduced operations in the textile mills and shoe factories. Raw cotton consumption was the lowest for any month in the last four years. Building activity has declined, and unemployment has increased in the past month. The coal situation is improving and prices are declining, although dear coal is still a serious factor in production costs.

Trade is reported light for this season of the year, and the railways, having cleaned up for the most part the congestion which existed in the Spring and Summer, are having some falling off in traffic. The grain movement from the farms is light. Outside of New York City payments through banks are fairly well maintained, being reported by the Federal Reserve Bank for the week ending November 24, as 6.7 per cent below the corresponding week of 1919. Including New York City, the falling off is 9.2 per cent, but business was very active and prices were high in November, 1919.

Evidently current conditions are not yet reflected in the volume of payments, for industry has slackened decidedly during November and wholesale trade is very slow. The business which should be going on now in orders for the retail trade of next Spring is not being done. This is especially so of shoes, clothing, dress goods, underwear, knit goods and the textiles generally, but is true in all lines.

The Farmers' Losses.

The fall in prices of farm products during the past month has given a more serious aspect to the entire business situation. Following the declines in September and October the cuts again have been very deep, and are of far-reaching influence. When the price recessions occurred in the months following the armistice and a general reaction in business seemed to be imminent, farm products were sustained by a heavy foreign demand, and with the buying power of the farm population sustained, a good general trade over the country was maintained, and the industries that had been disturbed were brought back into line. The expectations of continued prosperity during the coming year have been based upon the assumption that with Russian products still out of the competition the demands from western Europe would continue to sustain prices for farm products. This expectation has been disappointed. The drop in farm products lets down practically one-half of the industrial organization, and renders it unable to continue purchases from

the other half on the same scale, without a general readjustment of the basis on which the exchanges are made.

The farmer has suffered not only a great direct loss of purchasing power, but a shock which will affect his mental attitude toward expenditures for some time. He has debts to pay, more debts than at any previous time, judging by the volume of bank loans, and it will take a great many more products to pay them than it would have taken a year ago or three months ago. It is not to be expected that he will be the free spender in the near future that he has been during the last year.

Agricultural Products.

All the chief agricultural staples have fallen to new low levels during the past month. The figures for wheat, corn, oats and hogs at Chicago and cotton at New York are given below for October 30, and November 29:

	Oct. 30	Nov. 29
Wheat per bushel (December)........	\$2.10¾	\$1.56½
Corn per bushel (December)............	.85⅜	.66⅝
Oats per bushel (December)............	.55½	.45⅝
Cotton per lb. (December)................	21.6	15.2

The fluctuations in wheat have been violent, export sales bringing sharp rallies, while the general business situation, price declines in other commodities, European exchange rates, and progress of the crops in the Southern Hemisphere, exerted a steady influence against prices. Exports have continued at a good rate, the total for wheat and flour counted as wheat from the United States and Canada, from July 1 to November 25, being 203,012,972 bushels, against 133,806,825 bushels last year. That looks well, but these two countries have as much more to spare between now and July 1 next, and Argentina and Australia will soon be shipping. There has been no change during the past month in the reports as to their probable surplus, but there is news of threatened drought in India. However, nobody has counted much on India.

World Supplies.

There is no big surplus of wheat in the world. Allowing for the uncertain character of all crop estimates, for even the figures upon our own crops are only estimates, and allowing also for uncertainty about European consumption, the margin of safety is small. Nobody will really know until about next May or June whether all our wheat will be wanted or not. Meanwhile, the question with each holder or prospective purchaser is whether or not he wants to carry wheat over into the next crop year. The answer to that question determines his attitude. Market opinion is shown by the fact that wheat for March delivery is still about 5 cents per bushel below the December delivery.

Cattle and hogs have been coming to the markets in heavy runs during the past month, many of the cattle off of grass and unfit for market. The effect of these receipts has been to break the prices. The best steers held their own pretty well, but comparatively few were good enough to bring over \$14 per hundredweight in Chicago. General run has been \$2.00 to \$3.25 lower than November 1st. Receipts of hogs also have been heavy, and the price at Chicago is down to \$10, for the first time since 1916.

Dairy products have held up well, although the best grade of butter is down about 5 cents per pound from a year ago, and lower grades twice as much. The condensed milk trade, which had great expansion during the war, is very flat, the European demand having fallen very low. Condensed milk companies have taken or are facing heavy losses on stocks, and have greatly curtailed milk purchases, which is making more milk available for butter and cheese. The Hoover campaign for funds to feed European children may help the condensed milk situation. Poultry has been bringing good prices and eggs are higher than a year ago, a fact which the wage-earner does not fail to take into account when any mention is made of wage-reductions.

Cotton and Woolen Goods.

There has been no change of sentiment in regard to cotton goods during the past month. Production is at a low stage, the mills not running more than half time. Underwear mills are generally shut down. Reports about retail trade are conflicting, but admitting it to be considerably below normal, stocks certainly are being steadily reduced. One of these days the market will find itself bare, but no anxiety upon that score is manifest yet.

Jobbers are advertising special sales in many cities, and making strenuous efforts to clear out stocks before inventory time.

The competitive situation is illustrated by commission houses offering to put branded sheetings in the hands of jobbers, to be charged up at the end of the year at the lowest price made in the meantime. This is very much like the guaranteed price objected to by the Federal Trade Commission.

The continued decline in raw cotton of course is a factor in keeping the goods' market unsettled, and holding off buyers; conversely, the light demand for goods reacts upon the price of raw cotton.

Statistically the position of cotton is strong, assuming anything approaching normal world consumption, but consumption abroad and at home at present is light.

Little change has occurred in the wool situation, which waits on a revival of business in woolen goods. Prices are so unsettled that it is difficult to quote the market. Reports from foreign wool markets are indicative of weakness, although the highest grade of wool holds its own very well.

Copper, Spelter, Lead and Zinc.

We give below from the "American Metal Market," the average quotations for copper, spelter, lead and tin in the New York market, for each of the ten years ending with 1914, and for the ten year period, together with the quotations on the 1st day of November, 1919, and the 1st and 22d day of November, 1920.

Year	Electro Copper in N. Y.	Spelter in N. Y.	Lead in N. Y.	Tin in N. Y.
1905	15.98	6.00	4.70	31.55
1906	19.775	6.275	5.66	39.82
1907	20.86	6.205	5.35	38.34
1908	13.39	4.74	4.235	29.54
1909	13.11	5.52	4.30	29.76
1910	12.88	5.66	4.49	34.27
1911	12.55	5.91	4.46	42.68
1912	16.48	7.11	4.485	46.43
1913	15.52	5.80	4.40	44.32
1914	13.32	5.30	3.87	35.70
Average	15.387	5.85	4.60	37.24
Nov. 1, 1919	20.875	7.95	6.70	55.00
Nov. 1, 1920	15.00	7.40	6.875	40.00
Nov. 29, 1920	13.625	6.15	5.25	36.50

During the war the price of copper reached 35 and 36 cents and on spelter 22½ cents for a brief period, lead 12½ cents and tin $1.10 per pound.

It will be seen that copper and tin are now below the pre-war average, and in considering the prices realized by producers it must be remembered that the cost of delivering these metals in New York has been notably increased, as freight on those low-priced metals is a large percentage of the value.

The Swing of Business.

This slump in business conditions has demonstrated again that the great movements in the business world which make good times or bad times are spontaneous and beyond control. They are due to mass action and mass psychology. The business of the country depends upon the purchases and policies of tens of millions of individuals, and when they become generally possessed of a spirit of confidence, and go ahead with their planning and spending under its influence, we have a period of prosperity. The difference between free spending and careful economy by all the people of this country means a vast difference in the volume of trade and the level of prices.

A state of full prosperity is seldom long maintained because it means a balanced state of industry, and the balance may be disturbed by many influences, originating at home or abroad. The war gave an enormous but unhealthful stimulus to the industries and brought on the rise of wages and prices. Following the war, there was another abnormal period, due to scarcity resulting from the war and the release of demands that had been in restraint. The actual scarcity was exaggerated in many instances, as in the case of clothing and sugar, by an insistent demand which would be supplied at any price. A market in which demand exceeds supply is commonly called a sellers' market, on the theory that the seller names the price, but the prices upon many commodities in the latter part of 1919 and early part of 1920 were made by a scramble of buyers and the bidding of dealers eager to supply them. There was a shortage of cloth and of sugar, but the market was over-stimulated by the action of buyers, who in many instances tried to get more than they really wanted in the expectation that the limited supplies would be allotted, or to provide for the future. Nobody was more deceived than the dealers and producers. The price of raw sugar in Cuba went to 23½ cents per pound, and has since dropped to 4¾ cents. The sugar movement was an extreme one but that in textiles was of the same kind, and both illustrated the swing of mass purchasing power. It was at its maximum last Fall and Winter.

Price Structure Top-Heavy.

But, as already said, a movement of this kind is not sustained, because the buying abilities of all classes of the public do not remain in balance. In the great rise of prices all did not share alike. Those whose incomes did not keep pace with the rise of prices were obliged to curtail their purchases, and as prices went higher the support for them weakened. The Spring months were unfavorable to trade, goods did not move normally, the jobbing trade fell off, and with production at a high rate goods were accumulating. Money was tight, middlemen with heavy obligations outstanding and more goods coming, bought for the Fall trade. Then came the flood of cancellations and the cutting of prices. The price structure was top-heavy. As confidence in the future of prices was undermined the attitude of the trade and the public completely changed. Nobody would buy except to meet immediate wants, and goods came out from many quarters. When it developed that the orders for Fall goods cancelled last May were not to be re-instated, and that Fall needs were readily satisfied in the open market at continually falling prices; and when as the Fall advanced the usual buying for Spring delivery did not develop, it became evident that confidence would not be restored or prices stabilized until a far-reaching, thorough readjustment of costs and prices had been accomplished.

When Will Confidence Be Restored?

The movement has gone too far in some directions for confidence to be restored or buying stimulated until it has gone farther in other directions. The situation as regards purchasing power is more disorganized and out of

balance than it has been at any previous time. The farming population has suffered a loss of purchasing power amounting to somewhere between 30 and 40 per cent, or $6,000,000,000 to $8,000,000,000, as compared with last year. It would be very foolish for the people engaged in the other industries to think that they can go on making and selling goods as though this loss had not occurred, enjoying also the benefit of the reduction in farm products.

Manufacturers, merchants, labor leaders, owners of stocks in railroads and industrial companies—everybody in business—are asking how long this depression which is spreading over industry is likely to last. Nobody can tell the length of time, but it is not difficult to name the principal condition necessary to a revival. The prices of what the farming population wants to buy must come down to correspond with the prices of what it has to sell. Until then the state of reciprocity which is necessary to the full employment of labor and general prosperity cannot exist. The equilibrium must be restored. There will be no confidence in the situation until the equilibrium is restored. Merchants are not going to buy goods which they know their customers are unable to buy, railroads will not buy equipment to carry goods which will not be bought, construction work will be at a standstill, enterprise will be dead, until a basis of fair exchange for the products of the industries is reached.

This is not a matter of resolution, resentment, or concerted action. It results from the character of trade relations, from the fact that all business consists of an exchange of services. What one class of producers does not get, it cannot spend. With trade relations out of balance the circulation of goods must be curtailed.

Will Wage Reductions Be Made?

It is said that organized labor is going to stand for the present wage scales. That is a very natural resolution to make, off hand. Nobody likes to take the back track, and nobody should want labor to take the back track in any real sense. A reduction of wages which would put the general wage-level below the new price level would throw the situation out of balance in the same way that the fall of farm products has thrown it out. Neither the farms nor the towns can buy the products of the other except on a basis of fair exchange, and if the products or services of either are unfairly valued the entire industrial system will be disorganized. Wages and farm products went up fairly well together, and it is a mistake to think that they are not coming down together, for they are tied together by the economic law.

It is said that in the principal shoe-making centers of Massachusetts the labor organizations have passed resolutions against any wage reductions and that in the principal textile centers of the same state the mill companies and their employes have come to a similar understanding, for the present. But the news reports from the same cities say that the shoe factories and textile mills are running not over half time, which means a reduction in wages of fully one-half. It is mere fiction to say that wages are not reduced when such conditions prevail, even though wage rates are unchanged.

The shoe-makers and mill-operators may think that at least they are better off in that they only work one-half the time, but they overlook their own interest and the interest of the entire laboring population in the cost of shoes and clothing. While they are not actually sustaining their own wages they are keeping up the cost of goods, and if other workers, all around the circle of the industries, do the same, the cost of living will stay up for everybody, with earnings reduced. Of course it will be only fair for the farmers to work half time also, and already they have counsels of this kind. It is impossible to run the industries of this country on half time and produce economically or supply the people with the comforts they want. Any such attempt is destined to break down, because it will not yield the desired results.

Position of Wage-Earners.

We do not believe the wage-earning class will be found obdurate when the situation is understood in all its relations. They do not want to lose any real gains, but there are many signs that they will accept lower pay if the purchasing power of their wages is not reduced. That gives a basis for agreement. An official of the American Federation of Labor is quoted as saying that there must be no reduction below the levels of 1914, plus allowance for increases in the cost of living. That sounds all right, but it must be borne in mind that the cost of living is not something imposed upon the wage-earning class from above or from the outside; it is largely dependent upon the wages they insist upon having and their own attitude toward their work. They should not disclaim their proper share of responsibility for the cost of living, or think they can make someone else bear it. Nor can they, any more than any other class, escape their share of the results of ills and calamities that afflict the world. They may say that they are not responsible for the war or the disorganization of industry which has resulted from the war, but these costs must be borne by society as a whole, with every member bearing some share.

Improvements in Industry.

On the other hand there are the possibilities that lie in improvements in industry, by which it can be made more effective, production in-

creased and costs reduced. Just as no one in society can escape some share of the effects of great calamities, however they may be caused, so no one can fail to receive some share of the benefits which result from improvements in the arts and industries. A great corn crop does not benefit the growers or landowners alone; indeed they are thinking now that they have over-done their service to the community, and so it may be unless all the industries give the same honest effort for the general good. The improvement of industry and general increase of production is the true way of progress, and labor can play a great part in the advance. With respect to this also there are signs that it will not be wanting.

The United Engineering Societies of this country, a recently formed organization of which Herbert Hoover is the first head, has proposed a policy of co-operation with labor for the purpose of increasing the efficiency of the industries, eliminating wastes and making a study of means to promote the social welfare. Mr. Gompers, as head of the American Federation of Labor, has declared his sympathy with the proposal and his wish to co-operate. The idea is an inspiring one. One of the first services which the United Engineering Societies will render will be to aid in determining the feasibility of the proposed superpower line which it is proposed to run from Washington to Boston, to serve as a reservoir and feed line for all the electric power plants in the North Atlantic territory. Engineers have said that $300,000,000 per year can be saved in the cost of power. A survey of the project was recommended by Secretary Franklin K. Lane, and Congress has made an appropriation for that purpose. It is suggestive of great constructive policies, and so is an alliance between Hoover and Gompers.

Retail Prices an Obstacle to Readjustment.

Labor answers the claim that wages should come down to correspond with the fall of wholesale prices, by saying that retail prices, which determine the cost of living to wage-earners, have not come down to any such extent. That is true and on all sides it is being said that the situation is up to the retailer. He is the distributor and it is charged that he is blocking the flow of goods instead of helping it. His excuse is that he has goods which cost him high prices and he wants to work them off without loss before dropping to the new levels. It is to be said in his behalf that the price records of the Bureau of Labor show that retail prices generally lagged behind wholesale prices on the rising market, as they frankly do on the falling market. The report of the Federal Trade Commission on the flour industry, recently issued, shows that during the period 1913-1918 wheat rose 160 per cent, flour at wholesale 146 per cent, and flour at retail 118 per cent.

There was much discussion while prices were rising over the point whether a retailer was justified in basing his prices upon replacement costs, and popular opinion generally held that he was not. We have pointed out in comments upon war time profits that a dealer would need the profits of a rising market to meet the losses of a declining market. The proper basis for prices at all times is replacement costs, for there is no assurance that a dealer can control prices on any other basis. There is no certainty that he can sell goods at what they cost him.

But the fact that a retailer did not promptly follow prices on a rising market will not help him now. He cannot afford to block the procession. The producer has had to come down, regardless of the fact that his crops or his goods were produced on the high level, the jobber has had to take his loss, and the retailer who gets down to the new level as soon as possible will gain by doing so. He will be selling low-cost goods while his slow-going rivals are tied up with the old stocks. The best policy for the merchant at all times is to turn his stock as fast as he can replace it at lower prices. Furthermore, in times like these every man who is a link in the business chain should do his part to accomplish a speedy readjustment and a restoration of confidence. There can be no restoration of confidence until retail prices are in line with producers' prices. This is no time for recriminations about the blame for high prices or large stocks.

Changes in Retail Methods.

The situation may result in permanent changes in the methods of retail distribution. The tendency has been toward chain stores and distribution on a large scale by people who buy direct of producers, or through agencies controlled by producers. The present deadlock and inability of producers to make their reductions effective to consumers will stimulate it. More shoe factories are going to have their own retail stores, for the sake of controlling prices to the public. The farmers are aroused over the failure of retail prices upon fruits and other products to come down, and thereby stimulate consumption when products are perishing. Possibly the retailer sometimes gets more blame than is coming to him, but this is a time when it behooves every one to play the game of co-operation so openly that all can see what he is doing.

Elements of Strength in the Situation.

The elements of strength in the situation which we have named heretofore remain, and will become effective when the conditions are right. The main condition is that all along the line costs must come down until confidence

in prices is re-established. Confidence will not be re-established in prices that rest upon inflated costs, even though all profits have been eliminated. It will not be re-established in prices that rest upon any artificial support, for all such supports are temporary. Prices may go lower than can be permanently maintained; it is the usual thing in times of reaction that the momentum carries prices too low, just as in times of expansion they are carried too high.

This is preeminently a price situation. There is no lack of confidence in the future of business when a basis upon which it can go forward is found. Price fluctuations in recent years have been so wild that the public has become distrustful of all prices. For the moment buyers stand aside and there is little resistance to the downward movement, but of course this is a temporary situation.

The only prices that seem to be really authoritative are those that prevailed before the war, but it cannot be supposed, that in the present state of industry, this level will be generally reached or maintained. Prices that go too low will recover their proper place as the revival spreads.

Construction Work.

Construction work has always led the way in recovery from business depression. The difference between good and bad times is largely in the amount of construction work going on, and the strongest factor in the present situation is the amount of such work needing to be done. The country by all reports is underbuilt. None of the deficit of the war time has been made good, but last year and this year the country has fallen farther behind, because there is no confidence that present wage rates for mechanics or prices for materials will be sustained in the face of general business conditions. With great numbers of people out of employment, and the demand for office space and factory additions falling off, investors do not want to put their money into building operations at costs which they believe will be very much lower a year or so later. But if wages and prices come down, so that building investments look to be safe against later competition there is a vast amount of work to go forward. There is no industry that holds such possibilities of help for the situation as house-building, for the materials required would give employment in a great variety of industries.

The railroads have a great amount of work to be done, and only need the encouragement of lower interest rates, which undoubtedly are on the way.

The manner in which the country has borne the great shrinkage in values, the comparatively few important failures, has shown that the business structure is essentially sound. The banks have carried the situation through the credit strain. There will be plenty of credit for a revival of business on a lower level of prices. The business organization is in working order and ready to resume normal operations when conditions are right, which, as we have indicated, will be when retail prices, wages and industrial costs generally have come down to the level reached by the basic raw products.

Why Industries Shut Down.

When the mutual dependence which exists throughout industry is seen, the fallacy of the protest against the closing of factories will be understood. It is a superficial view that the shut-downs are simply to maintain or raise prices. The primary reason is that the goods cannot be sold, and that the proprietor either has no confidence in the future market or lacks the capital to pile up goods. In the present situation it is plain that a readjustment of all manufactured goods to a lower basis is necessary to bring them into line with raw materials, food products and the general level of prices. It takes time to accomplish such a readjustment. It cannot be expected that the manufacturer will go on making goods which he knows he will have to sell at a loss. There is a common rule of conduct in such matters, which everybody naturally follows and which is generally sound and in the public interest.

Few concerns have the capital to run long unless the goods are being concurrently sold. The volume of bank loans shows that business is borrowing great sums, much greater at this time than ever before, and it could not increase these loans for the purpose of piling up goods to be sold at a certain loss. The losses to proprietors are of staggering proportions now, with everybody striving to make them as small as possible. No one can gain in the long run by dissipating the capital which is engaged in carrying on industry, or breaking up established organizations. Bankruptcies mean that works are closed permanently, or until new capital can be found and new organizations are formed, and meantime labor is out of employment. The common interests are served by readjustments which keep all the factors of industry on a harmonious working basis.

The Kansas Court.

The Industrial Court of Kansas has cited seven flour-milling companies before it to answer why they have been operating only part of the time. The markets give the answer. Throughout the present season wheat has been selling for the forward deliveries at heavy discounts below the spot deliveries, as much as 25 cents a bushel. This means that it has been impossible to buy cash wheat and make it into flour for future delivery without loss. Consumers and dealers have been buying flour for immediate needs only, and the mills have run only upon orders. If they had been running full

time throughout recent months and storing flour in warehouses, they would all be bankrupt and shut down permanently by this time, and if the Kansas courts were to require that kind of management there would be no more flour-milling in that state.

Canadian Competition.

In explaining their situation and policy to the Court the Kansas millers, according to newspaper reports laid emphasis upon the competition of Canadian flour and also upon the disadvantage under which they labored from the fact that millers in Minneapolis had been buying Canadian wheat below the prices of Kansas wheat. There is a tendency always to exaggerate any novel or unusual factor in a situation, and free imports of Canadian wheat are something new, and they are coincident with the great decline. As a matter of fact the Minneapolis mills have been doing little if any more than the Kansas mills, and that is true of mills in every part of the country. They were not running because they could not sell flour.

The November Letter of the Northwestern National Bank of Minneapolis, published on the 1st of last month referred to the situation as follows:

> Never in the history of Minneapolis milling has the situation paralleled the present. This is the reason that the demand for credit by millers, together with that of grain men, has been unusually light. The months of September and October are the heavy season for manufacturers of flour, but this year the inquiries were "dull and listless." Minneapolis mills are running at about sixty per cent capacity.

The "Northwestern Miller," of Minneapolis, in its issue of November 24, referring to the wheat declines of the previous week and their effect on the flour market says:

> As was to be expected, flour was practically unsalable, and quotations reported were only nominal. Those for patents marked a new low point since early in 1917, but buyers were too much alarmed by the unsettled state of the wheat market to do any more purchasing than was absolutely necessary.

Mr. Julius H. Barnes, late grain administrator, and conceded to be one of the most thoroughly informed and competent men in the grain trade of this country, before the Committee of Seventeen, representing agricultural organizations and engaged in a study of marketing conditions, early last month stated that the falling off in the consumption of wheat by American mill, amounted to 50,000,000 bushels in the first four months of this crop year. Evidently this was a more important factor than the importation of perhaps a quarter of that amount.

Of course Canadian wheat and flour always have been in competition with the wheat and flour produced in the United States, just as wheat not yet harvested in Argentina and Australia is at this very time affecting prices in this country. The United States is exporting heavily to Europe and so are those countries, and the prices realized abroad determine the prices in all of these countries. The markets at home and abroad get out of line with each other temporarily, but normally Kansas City, Chicago, Minneapolis, Winnipeg and other world markets move together, affected by common influences. If they get out of line free trading brings them back. The influence of Canadian wheat in our markets is a little more obvious when it comes here than when it goes to London, and it is possible that by affecting public sentiment it may also, temporarily, have a greater influence upon the price. It is true that not only are facts important but what people think of them may be important. People may misjudge any situation, but it does not follow because they do that the situation should be forthwith changed by legislation.

Our Trade Relations With Canada.

It is pertinent in this connection to say that in the first nine months of this calendar year the imports of all products into the United States from Canada amounted to $417,631,824, against $338,558,590 in the corresponding months of 1919; and that the exports from this country to Canada in the same months of this year amounted to $754,536,265, against $519,657,944 in the corresponding months of 1919. The trade balance with Canada therefore is running in our favor at the rate of nearly $450,000,000 per year. Exchange rates are against the Canadians, and increase the cost of our goods, but they continue to buy, and next to Great Britain, Canada is our best customer. We talk a good deal about the necessity for building up foreign trade, but where shall we find a better customer? What is any foreign trade good for unless we can collect pay for what we sell? Wheat is one of the products we are receiving from Canada in payment for our exports, and we send every bushel of it to Europe, or it releases a bushel of our own to be sent instead. The products we are sending to Canada are manufactured goods for the most part, giving employment to labor in this country. What is to be gained by interrupting these natural relations?

Money and Credit Conditions.

There was little change in the credit situation at this center during the month of November, but such developments as occurred were favorable. Liquidation was noted in some lines, but demands from elsewhere took up what was released. The general movement of funds was against New York. The loans of the Clearing House banks on November 27th aggregated $5,212,484,000 against $5,343,273,000 on October 30th, and of the Federal Reserve Bank of New York on November 26th, $1,052,000,000 against $1,095,527,-

000 on October 30th. The reporting member banks had total loans of $16,793,574,000 on November 19th, against $17,283,996,000 on October 15th.

The consolidated statements of the Federal Reserve banks showed on October 29th total earning assets of $3,396,043,000 and on November 26th $3,303,747,000. The discounted paper held by the Reserve banks of Cleveland, Philadelphia and Boston for other Reserve banks was reduced from $247,100,000 to $156,000,000.

All of the foregoing figures indicate the tendency to liquidation. The public, instead of being anxious to borrow has become anxious to pay.

The New York call money market was easier in the latter part of the month. On November 1st and 2d the high rate was 10 per cent, the low rate 9 per cent and the renewal rate 9 per cent; from the 4th to the 10th inclusive the high rate was 10, low rate 9 and renewal rate 9; from the 11th the high rate was 10, low rate 7 and renewal rate 9; on the 12th, high rate, 9; low, 7; renewal, 9; on the 13th and 14th 9 per cent ruled; on the 15th the high rate was 8½, low 7 and renewal 8½; on the 16th 8 per cent ruled; 18th to 21st, high was 7, low, 6, renewal, 7; 27th, high, 7, low, 5, renewal, 7, and on this day money loaned at 4½ after the close; from the 23d to the 28th the only recorded rate was 6 per cent.

A number of small state banks, outside of the Federal Reserve system, located in North Dakota, closed their doors during the month, it is reported, because of impaired reserves and inability to collect farmers' paper. The state superintendent of banks has expressed the opinion that most of them will resume.

Undoubtedly the general tendency now is toward liquidation and easier money. As business slackens, stocks are reduced and prices decline less credit will be required. The speculative fever is gone; a moderate revival, which would put a little more buying power into the markets, would be helpful. Liquidation is halted, however, by the slow movement of the crops and slack trade. It is an extraordinary thing to have the country banks reducing their balances at the centers in November instead of increasing them.

This is a time when care must be exercised in granting credit, but words of caution upon that point are almost superfluous now. They were more needed last year when things were booming. The important thing now is for the banking system to protect the situation from demoralization by granting credit where it will be helpful and can be granted with safety.

Foreign Trade and Exchange.

The foreign trade statement for October furnished another surprise, the balance in favor of this country rising again to nearly $400,000,000. Exports at $752,000,000 were up $145,000,000; while imports at $362,000,000 were down about $1,000,000 from September. The details are not yet available, but it is known that cotton and grain exports were large and to a great extent represented purchases made in the summer.

With the exception of the British nearly all of the exchanges quoted in the table are lower than a month ago:

	Unit Value	Rate in cents Oct. 27	Rate in cents Nov. 27	Change from par	Depreciation
Canada	1.00	.9050	.8930	.1070	11%
Germany	.2382	0141	.0145	2237	94%
Italy	.1930	.0375	.0370	.1560	81%
Belgium	.1930	.0675	.0644	.1286	67%
France	.1930	.0635	.0608	.1322	68%
England	4.8665	3.49	3.4950	1.3715	28%
Switzerland..	.1930	.1575	.1570	.0360	19%
Holland	.4020	.3060	.3056	.0964	24%
Denmark	.2680	.1375	.1356	.1324	49%
Norway	.2680	.1375	.1356	.1324	49%
Sweden	.2680	.1950	.1932	.0748	28%
Spain	.1930	.1395	.1318	.0612	32%
Argentine ..	.9648	.80	.7575	.2073	21%
Japan	.4985	.5125	.5060	.0075	*1½%

*Premium.

The United States on the Peak of the Exchanges.

The United States is on the peak of the world in the exchange situation. The resident of any other country must pay a premium which under normal conditions would be prohibitive, to obtain the means of making a remittance to this country. That premium is necessarily added to the cost of any purchases in this market. Next to this country stands Great Britain, with nearly all countries in a similar relation to her. Even her own colonies, with the exception of Canada, must pay a premium for exchange on London. The situation shows how great is the dislocation of normal trade relations, and explains the paralysis of industry, stagnation of markets and low prices which exist everywhere. The industries of the world have been developed in relations with each other, and they cannot operate except in relations with each other.

A recent number of the London Times gives a table showing the fall of other exchanges, excepting the United States, as compared with London, as follows:

Country	Note Circulation Year's Inc. or Dec. (in £1,000's).	Per Cent.	Inc. or dec. per cent. required to purchase £1.
France	+ 112,564	+ 8	+ 48
Belgium	+ 33,582	+ 18	+ 42
Italy	+ 221,248	+ 45	+ 113
Switzerland	— 394	— 1	— 7
Greece	+ 2,548	+ 5	+ 42
Spain	+ 12,256	+ 8	+ 9
Portugal	+ 31,212	+ 54	+ 150
Holland	+ 1,930	+ 2	+ 1
Germany	+ 1,545,244	+ 79	+ 111
Austria*	+ 298,786	+ 13	+ 9
Rumania*	+ 23,499	+ 14	— 31
Norway	+ 2,098	+ 9	+ 38
Sweden	— 37	— 0.1	+ 2
Denmark	+ 5,926	+ 24	+ 28
Finland	+ 8,808	+ 22	+ 25

*Six months' comparison.

The Times comments upon the table as follows:

> The broad fact that emerges from this table is that while currency depreciation has been greatest in countries where the manufacture of paper money has been most prolific, the fall in currencies has proceeded at a pace faster than the growth in the production of new notes. Take France as one of the most striking examples. The increase in the circulation of bank-notes on the year has been the moderate one of 8 per cent, whereas the increase in the amount of French currency needed to purchase £1 is nearly 50 per cent. The figures serve as a melancholy reminder of the greatly attenuated power of continental Europe to import goods, whether manufactured articles or the raw materials that are so badly needed to restart our neighbors on their economic feet, and they go a long way to explain why commodity prices are falling.

Australian Exchange.

Trade with Australia has been greatly embarrassed of late by the inability of Australian banks to supply funds either in this country or in London. Usually trade between the United States and Australia has been settled through London, but exports from Australia have been light this year and the Australian banks have drawn down their balances outside until they are obliged to decline to undertake further payments. The result is that drafts for Australian imports are not being met, and Australian importers, although solvent houses, are in default in many instances.

London is more disturbed than New York because its trade with Australia is much larger and has been saying that the Australian banks should export some of the gold they have in their reserves. The Australian banks probably would do this but for the fact that the government has restricted gold exports to the current Australian production, which is not sufficient to take care of current obligations abroad. The United States has been getting a portion of the available supply.

A considerable amount is said to be coming to the Australian wool-growers from the British government in final settlement of joint account, but when it will be available is not known. When the new wheat crop begins to move out, which will be in January, the situation may improve, and hopes are expressed that by March it will be decidedly better.

South America.

The South American exchanges continue very much depressed. The fundamental cause is the great fall in the value of South American products, notably wool, hides, coffee, cocoa, rubber, and, of smaller importance, sugar. No commodities have fallen more than these, and some of them are almost unsaleable. These, with grain and meats, are the products upon which the countries of South America are mainly dependent for ability to make purchases abroad. Inability to realize upon them sends up exchange rates on the United States, and interferes with both sales and collections. Many millions of dollars of drafts on these countries are in default and the trade is in a state of paralysis. Exchange on New York at Buenos Aires at this writing is at a premium of nearly 30 per cent.

Several of the South American countries have been carrying on loan negotiations for the purpose of correcting the exchanges and something in this line may be accomplished after the first of the new year. It is of course very desirable to establish the credits, in order that trade may go on, but the public market of this country is not yet familiar with South American securities, and it is uncertain whether they will go at rates which the southern countries consider satisfactory and have been accustomed to pay in Europe. If this situation was dealt with comprehensively not only would our relations with Latin America be greatly strengthened, but our home situation would receive the very stimulus which it needs.

Asiatic Exchanges.

The situation as to the Asiatic exchanges is reversed from what it was during the war and last year. Early in the present year, while silver was around the top prices, the government of India changed the exchange value of the silver rupee in British money from 15 rupees to the sovereign to 10, for the same reason that the government of the Philippine Islands reduced the silver content of the peso, to bring the bullion value below the face or exchange value. Since then silver has had a great decline, the balance of trade has been against India, and the government tried for a time to sustain the rupee in its new relationship by selling drafts on London at the fixed rate of exchange. The London Times is authority for the statement that the government used £55,000,000, or the equivalent of about $275,000,000, in this effort to sustain the rupee. Finally, however, about the 1st of October the government gave up the attempt and allowed exchange to shift for itself. The result has been a decline in the value of the rupee, and some exportation of silver from India, with a heavy fall in silver in all markets. The United States government is still buying silver of American production under the Pittman act, but the open market for silver is down to about 72 cents per fine ounce. Chambers of Commerce in the principal cities of India have petitioned the government to resume the sale of drafts, in order that means may be available for meeting foreign payments without paying the high exchange rates. They are no worse off, however, than the people of Australia or South America, whose situation is referred to elsewhere, or of the people of England who have payments to make in the United States.

A strange feature of the situation is that in the face of this situation India continues to im-

port gold, showing that the demand is not for gold as money but as a commodity.

Japan has continued to take gold from the United States, but exchange rates are now below the gold point. The reserve of the Bank of Japan is so high that its outstanding note circulation is entirely covered, but this presumably includes gold credits abroad. Exports of gold from this country to Japan in November aggregated about $17,000,000.

The Need For Foreign Credits.

What the London Times says above about the effects of the depressed exchanges upon British trade should be taken home by ourselves. It has been said that we could do nothing, because of the pressing needs for credit at home, but a grant of credit to South America to enable those peoples to meet their obligations here would be only a shift of credit, and if it encouraged them to buy more it would give business to workshops now closing down. The situation needs more comprehensive treatment than it has yet received.

A leading newspaper of the middle west after quoting our comments of last month upon the relation between the failure of this country to grant foreign loans and the decline of farm products, comments as follows:

> If our financial leaders could have seen from the first that we must give Europe assistance to enable the devastated peoples to resume industry and thus produce goods to repay us, and also to exchange for what we have to sell, in other words, if we had undertaken in the financial reconstruction to do just what we did in the war, there would have been no such disastrous falling off in our own market.
>
> The smash of the farm market is the measure of want of foresight, courage and leadership in the part of American financiers.

New York bankers created a Committee in June, 1919, for the purpose of starting the formation of a country-wide organization to provide credits for foreign trade. Members of that Committee visited Chicago and laid the plan before the bankers of that city, who approved of it and promised to co-operate. It was proposed to form a corporation with a capital of several hundred million dollars, and for the value of Government countenance and encouragement in distributing securities it was desired that the Government should participate to some extent as a stockholder. When the plan was taken to Washington, however, it met with pronounced opposition, the most outspoken coming from the West. A prominent senator was quoted by the papers as saying that Wall Street wanted to sell a lot of European securities and later would be back wanting Congress to make war to collect the interest. An effort was made to hold the Liberty Loan Committees over the country together to act with the proposed national organization, but the war was over, and it seemed to be impracticable to continue the appeals for money.

New York bankers in the past year have placed several hundred million dollars of foreign loans, most of them for foreign governments. They have been sharply criticized for lending money to foreigners which was said to be needed at home, although every dollar was used by somebody for purchases in America.

The sale of these securities was vigorously pushed in every state of this country, by mail and personal solicitation. Every person considered a possible buyer was urged to buy. In the case of the French $100,000,000, in which a large number of leading banking houses participated, The National City Company received subscriptions from 3,422 individuals for $5,000 worth of bonds or less. These subscriptions were made up as follows:

Amount subscribed	Number subscribers
$100	319
$100 to $500	600
$500 to $1,000	1,032
$1,000 to $2,000	499
$2,000 to $5,000	970
	3,422

The average amount subscribed for through The National City Company taking into consideration the total subscriptions received, was $3,324.

These small sales tell the story of intensive campaigning.

The bankers were criticized in some quarters for driving hard bargains with the borrowers, but most of the issues can be bought in the open market close to the issue price, some a little above and some a little below. The French 8 per cents are selling at this writing at a premium of ¼ of 1 per cent.

Recriminations are useless, but in view of the statement by the President of the Iowa Bankers' Association, quoted elsewhere, as to wild-cat stock speculation in that state, it may not be out of place to suggest that the failure to take foreign securities is not wholly chargeable to "financial leaders," if by that is meant the bankers of large cities. Credit in the sums wanted to support our foreign trade cannot be supplied by a few "financiers," particularly in these times of high income taxes. They must be provided by a united, widespread effort. In the October number of this Letter in discussing this subject we said:

> The fact is that the best interests of all countries would have been served by a renewal or replacement of the Anglo-French loan for another five-year period. It would have assisted France in her recovery and helped England to extend more credit to continental Europe, and have served both ways in getting the world back to rights. Why didn't we do it? Simply because the number of persons who understood these relationships was too few to enable the thing to be done.

The modern world is one community, but there is no general understanding of the fact. The same principle of interdependence which unites the real interests of all classes within our country, operates between all modern communities. None can realize a full state of prosperity unless all prosper together. There is an opportunity now for

all parts of the country to participate in another movement. The American Bankers' Association is about to launch a new corporation, with a capital of $100,000,000, which if the subscriptions are secured will be a debenture corporation, to issue its own obligations, payable in dollars, secured by the foreign securities which it will purchase. This is on the plan of the Federal Farm Loan Banks. The capital can be increased if the public supports the enterprise.

Farm Land Values.

Much is said in current discussion just now about the cost of production, and the losses that are being suffered in various lines of industry. There are different kinds of losses, and it is well to keep the distinctions in mind. There is for instance the loss of what might have been made if a situation had been handled more wisely or if some unforeseen development had not upset calculations. Then there is the loss of the fair profit which everyone is entitled to make in business and which must be forthcoming as a rule to provide an inducement for anyone to take the risks and make the exertions that are required in any business undertaking. And finally, there is out-of-pocket loss suffered when a person comes out of a venture not only with nothing to show for his time and efforts but with less capital than he put into it. This is the kind of a loss which hurts most, but nearly everybody with any variety of experience as a business proprietor takes such losses occasionally.

Production Costs in Iowa.

The Farm Management Department of the Iowa State College of Agriculture in co-operation with the Iowa Farm Bureau Federation, has recently completed the gathering of figures from a large number of typical Iowa farms on the cost of production of wheat and oats, and the announcement is made that at the market prices current when these prices were given out, on October 18th, three farmers out of five would lose money on their wheat and nine out of ten would lose money on their oats.

The cost of oats production is based on figures secured from 196 farms in different parts of the state of Iowa, the farms being selected with a view to obtaining average conditions over the State. We quote from the report as follows:

The average value of the land on which the oats was grown is $260 per acre. The average yield was 38.3 bushels per acre. On only two farms out of the 196 was oats produced for less than 44 cents, the present market price at Ames. On the other 194 farms, the farmer, if he sold his grain today would lose anywhere from a few cents to a dollar a bushel.

The largest element in the cost of production was the charge against the land, including taxes and 5½ per cent interest on the market value. This charge amounted to $15.53 per acre . Labor, man and horse, came to $6.01; seed $3.23; machinery 79 cents; threshing $1.44; twine 39 cents; threshing fuel 18 cents; manure $1.66; storage 91 cents; miscellaneous 48 cents.

The investigation of wheat costs was carried on in Montgomery, Warren and Wapello counties. Figures were secured from 167 farms. The average value per acre of the land in wheat was $282. The average yield was 18.5 bushels and the average acreage was 29.

Only 40 per cent of the 167 farms produced wheat at a cost of $1.80 or better, the present market price. The remaining 60 per cent stand to lose on the wheat growing operations this year.

The cost of production for an acre of wheat was distributed as follows: Seed, $3.41; use of land, including taxes and 5½ per cent interest on land, $16.80; man labor, $4.14; horse labor, $5.04; machinery, $1.24; threshing, $1.67; twine, 35 cents threshing fuel, 16 cents; manure, $1.49; storage, 44 cents; miscellaneous, $1.04.

Land Charges Approximately One-half the Cost.

The most interesting feature of this calculation is the cost of the land. It may be that the figures represent average values when the calculation was made, and some of the present owners may have paid that price for the farms, but whether they are worth that valuation or not depends upon the prices that can be obtained for the products grown on them. It is reversing the actual relationship to represent land values as a basic element in the price of products. The converse is true, i. e., land values are based upon the value of the products which the lands will produce.

Tabulating the cost of these crops as given above the statement is as follows:

	Per acre Wheat	Oats
Seed	$3.41	$3.23
Labor, man and horse	9.18	6.01
Machinery	1.24	.79
Threshing, including fuel	1.83	1.62
Twine	.35	.39
Manure	1.49	1.66
Storage	.44	.91
Miscellaneous	1.04	.48
Total, exclusive of land charges	$18.98	$15.09
Land charges	16.80	15.53
Total	$35.78	$30.62

Labor Costs.

Presumably the labor costs are computed at the going rates for labor, team service and use of machinery which the farmers would have had to pay if they had hired the work done. This is correct, but it must be borne in mind that it includes compensation for labor at high rates and for investment in equipment. In the case of both wheat and oats the average returns covered these costs, reckoning values at the date named, but subsequent declines have thrown the value of the oats crop below even these direct production costs.

At $1.80 per bushel, as calculated above, the average value of the wheat crop was $33.30 per acre, or a profit of $14.32 per acre after meeting the direct expenses. At 44 cents per bushel the average value of the oats crop was $16.85, which was only $1.76 per acre above the value of the labor and other items of cost expended upon it.

Further Declines.

Both wheat and oats have declined in selling price since October 18, the former about 55 cents per bushel and the latter about 10 cents per bushel, on the Chicago market. This would reduce the net income per acre, exclusive of land charges, on wheat to about $4.15 and in the case of oats would give a deficit of about $2.00. The results upon oats are very unsatisfactory. Upon this crop the farmers of Iowa are in the position of many producers elsewhere, not only of agricultural products, but of manufactured goods, who have not only had profits for this year wiped out, but have lost money. These are not normal times, nor were the years when prices were booming. When prices were rising faster than costs the producer made money; now that they are falling faster than costs he loses. It will be better for everybody when conditions are settled again.

The oats crop is large this year and as it happens the corn crop is the largest on record. It is not the usual thing to have both of these crops turn out so well in the same season, and as both are mainly used as feed for animals and the foreign market for them is restricted, the price has suffered excessively.

Land Values as a Factor in Costs.

All government farm management calculations include interest on the estimated value of the land as part of the cost of making the crop, and as land values rise whenever crop values do, it follows that government calculations almost invariably show that there is no profit in farming operations.

This method of calculating costs may be justified for the purpose of showing them in individual cases, or in order to indicate the true value of land in production, but as a basis for a grievance on the part of the farmers against the rest of the population they are not valid. Figures showing that the farmer, after allowing interest on the value of his land does not receive adequate pay for his labor do not prove that or that prices of products are too low; it may be that land values are rated too high.

Advance in Land Values.

The Department of Agriculture has issued a pamphlet this year entitled "Farm Land Values in Iowa" in which it shows as the result of a careful inquiry that between March 1, 1919, and March 1, 1920, the selling value of farms in Iowa increased, on the average, $63 per acre. The Iowa State Census of 1915 calculated that during the ten years preceding, the average value of Iowa lands had increased $60.25 per acre, or 128 per cent. The report of the Federal Census for the ten years 1899-1909, calculated the average advance during those years at 124 per cent. What has caused these advances? The report of the Department upon the sensational advance of last year shows that in 1,035 farm sales which were investigated, 727 farms were bought by farmers, of whom, however, 47 are classed as retired farmers living in towns. The other purchasers were people in various occupations, some of whom stated that they intended to live on the lands, while others bought with the intention of selling again. At bottom it is the efforts of farmers to buy farms which puts up the price. If there was no demand from them there would be no demand from speculators. Upon what theory then can the farmers blame other people for the high price of lands, and what reason is there in the claim that the prices of farm products should advance to pay a return on any prices which the farmers may establish upon lands? If the prices of farm products should double, the scramble for farms would send values so high that the farmer would make just as poor a showing of earnings as before, according to the Government's system of calculating costs. Judged from this standpoint the situation is hopeless.

Reasons for Low Returns on Land Values.

The reasons for the low returns upon land values invariably shown by investigations are not hard to find, and they should be dealt with frankly. One of them is that in the middle west over every census term in the past there has been a substantial increase of land values. This rising tendency has come to be expected and is partially discounted in the prices paid for land. The buyer will pay more than he would pay if he was expecting no gains except from the crops.

Another reason is that land, particularly in a new and developing country is considered the safest of all investments. The mass of the people know comparatively little about investments other than in real estate and mortgages. They distrust other investments but have confidence in land, and in many cases buy it with a view to the safety of the principal rather than the rate of return. They will bid up the price of land to a point where it will pay a lower rate than would satisfy them in the case of any other class of investment.

Neighborhood considerations, or in other words choice of a place to live, are another factor in the value of land. In the states of the middle west, where farming is the chief industry and the sons and daughters of farmers expect to be farmers, there is a constant demand for farms by the young people who are setting up for themselves. The parents wish them to locate near the old home, and are in the market for farms for them. In some instances a settlement of foreign-born people, with a church of their faith, will affect land values.

The Competition for Land.

Finally, there is constant competition for land by the thrifty and successful farmers. The natural investment for a farmer is in more land. On the surface there does not appear to be that sharp competition between individual farmers that exists between rival tradesmen, but the competition is there. The farmer who is a good business man and getting ahead, is making a price for land which a poorer farmer cannot afford to pay. The latter cannot buy it and make it pay out. It must be remembered in reading all statements of average returns that many farmers are making more than the average and many are making less. The Department of Agriculture made an inquiry into the cost of raising wheat on 481 farms in Kansas, Missouri, Minnesota, North Dakota and South Dakota, in 1919. It found the average cost to be $2.15 per bushel, and that 224, farmers, who harvested 44.2 per cent of the acreage, produced their crops at less than the average cost, while 257 farmers, who harvested 55.8 per cent of the acreage, produced at a cost above the average. The people who are below the average in productive efficiency are poorly paid in any competitive field, for compensation is good or poor by comparison with what others earn.

Effects of Rising Land Values.

Some people deprecate the rise of land values, arguing that it is hard on the poor man, tends to concentrate land ownership, creates tenancy, etc. The subject is an important one, much too large to treat comprehensively in these columns, but it may be noted that the influences affecting values are broad, or in other words result from the actions and opinions of the body of the people, and not from mere price manipulation by a few. It is unfortunate that land values should be lifted by temporary influences, such as the high price of products in war time, and that the rise should be assisted by speculation, and that people should go into debt to buy under such conditions; but rising prices in any kind of property cause speculation and the right of people to go into debt is incidental to freedom in the management of their private affairs.

It is a debatable question whether rising land values tend to concentrate land ownership. It depends upon whether land can be used most advantageously under large holdings or small. The land system, like every other feature of the industrial organization, will tend under the economic law to take that form which will produce the largest economic results. The big ranches are being broken into farms for that reason; that is decentralization. Some people think the large farms will be gradually divided into small holdings, for intensive working, as lands are held in Japan and France. Others think that the best results in growing the principal staples are not to be had in that way, because it is not practicable to use machinery extensively; they think the tendency will be the other way, to the adoption of factory methods and large scale production by the largest possible use of machinery.

Since opinions differ, and one system may be best for one kind of crops and another system for other crops, the best policy is to allow natural development to take its own way. The natural tendency in a society not dominated by doctrinaires will be for the lands to be disposed of and handled in the manner which will yield the largest production in proportion to cost, which is more important to society than who owns the lands.

Yield the Important Thing.

The cost of growing the farm crops calculated by the bushel or ton, depends very largely, upon the yield per acre, and that is largely dependent on the intelligence, training and industry of the farmer. If year by year, under the same conditions, one group of wheat growers should show lower production costs than another group, it would indicate that the former group could afford to pay more for land than the latter, and probably would become larger landowners. Moreover, the public interest would be served by this development, which probably would occur by members of the former group buying out members of the latter. Since the land area cannot be increased, it is undoubtedly necessary as population increases, that the lands shall be made more productive.

Is there any other system under which the lands will tend to pass naturally into the hands of those who have the ability to get the best results from them, than by this system of free purchase and sale? There are people who think that the lands should belong to the state for the common advantage, but even then it would be necessary to have some system of distribution to tenants which would promote the largest production. The problem of land control is always how to get the largest permanent yield of the products required to satisfy the wants of the population. Every landowner is under obligations to justify his holdings by this principle.

Land policies, like other public policies, must be general and judged by the general results. It is said that rising land-values increase tenancy, but that is probably a temporary effect. High land-values logically require good tillage, good drainage, and complete equipment for efficient farming operations. The owner who cannot or will not give these will find it to his advantage to transfer his investment to some other field, and let the land pass to some

one who can make the best use of it. That everybody does not do this is not proof that the principle is unsound. Under any system there will be people who will not do what is to their best interests, but self interest is the motive that can be most surely relied upon to accomplish results. The economic laws work by gradual but steady pressure.

Fallacy of Restricting Production.

The fixed investment in land is something to be considered by the farmers who are proposing to restrict the production of farm products as a means of advancing prices. With the land charge so large a percentage of the cost of production, and the same whether anything is grown on the land or not, the idea of letting land lie idle does not commend itself. Moreover, the other items of cost as shown in the government calculations consist for the most part of charges for the labor of the farmer and his family and the use of equipment which he owns, and so far as these are concerned he will not gain much by curtailing his operations. The experience of the past is against the adoption of such policies.

There have been low prices in other years. It is less than 25 years since wheat sold in Chicago under 60 cents per bushel and corn sold in Iowa at 15 cents per bushel. There was alarm and agitation then by people who thought that unless something was done at Washington forthwith everything would go to ruin. The real danger at such a time is that something will be done that will interfere with the workings of the natural, economic law, and prevent its setting things to rights.

Amid all the vicissitudes of agriculture, the farmer who has gone on with his business as usual, diversifying his crops and getting the largest yield he knew how to, has always found that the markets came back to him and on the average gave a fair reward for his labors. On the other hand the man who changes his policies with a view to influencing world markets is likely to find when prices are right that he has little to sell. The steady-going man-on-the-job, who depends on the law of averages, comes out ahead.

The Straight-Forward Course.

Furthermore, the man who keeps to his work at this time has the satisfaction of knowing that he is doing his honest part to bring order out of chaos and restore the natural equilibrium. This is no time to allow impatience, resentment and class feeling to dominate policies, add to the confusion and delay readjustment. A policy of making food and clothing materials artificially dear will fail, but a policy of bringing other commodities down to a level with farm products will succeed, and in this way an equitable readjustment will be accomplished. The world does not want readjustment upon the basis of war, disorder and scarcity, but upon the basis of peace, order and abundance.

Throughout all the period of high prices tens of thousands of people have suffered because their incomes have not increased to correspond with the increase in the cost of farm products and of wages in other occupations. This has been true of the entire body of public employes, including school teachers, of many of the wage-earning and salaried class in private employment and of others dependent upon fixed incomes. There has been no redress for them. And now everybody should be content to take his turn and do his part, without being too sensitive as to his own relative position each day in a time of confusion and change. The best type of citizen is the one who wants to guide his own course in the manner that will best serve the common interest, whether anyone else does so or not. When that purpose governs, our difficulties will be quickly overcome, and it will be found that nobody has made any sacrifice.

Banker-Farmer Conferences.

The Iowa Bankers' Association has held during the past month a series of conferences in different parts of that state, to which the bankers and farmers of the several localities were especially invited, but which were open to the public. The conferences were for the purpose of free discussion and exchange of views over the banker-farmer situation in Iowa. The loans of the bankers to the farmers are of record proportions, and the severe declines that have taken place in the prices of farm products have given a much more serious aspect to these loans, and also checked the marketing movement and affected the entire business situation.

These meetings were largely attended, at some places the largest halls being inadequate to hold the crowds, and the interchange of views was frank, honest and valuable. The bankers described their situation, the farmers described theirs and representatives of the Federal Reserve Bank of Chicago told of the general situation and the position of the Reserve bank. All parties seem to have been impressed that the meetings brought about a better state of feeling. It appeared from the statements made by the officials of the Reserve bank that banking conditions in Iowa were more expanded than in any other territory of the Chicago district. According to their calculation, based upon banking assets, the bankers of Iowa were borrowing from the Reserve bank 245 per cent of their proper proportion of its loanable funds. Illinois, with the great industrial and commercial city of Chicago, was borrowing 86 per cent of its rightful proportion,

and included in this were the borrowings of the large member banks of Chicago, for the purpose of lending in Iowa and other outside territory.

The high point of loans by the Chicago Reserve bank to the Iowa member banks for the war time and immediately following, was reached May 1, 1919, when the figures were \$32,000,000. By July 1, 1919, this amount had been reduced to \$12,000,000. On May 1, 1920, the figures were \$65,000,000, by July 1 were down to \$61,000,000, but on November 12 they had risen to \$91,000,000. These are sums borrowed by the Iowa member banks from the Federal Reserve bank of Chicago for the accommodation of their customers, after exhausting their own lending capacity. They do not include borrowing by the Iowa banks from correspondent banks in Chicago, New York and other centers, which aggregate a large sum.

Help From Other Districts.

It should be considered in this connection that on the date named, November 12, the Federal Reserve banks of Cleveland, Philadelphia and Boston were lending an aggregate of \$200,000,000 to seven other Federal Reserve banks, of which \$38,000,000 was to the New York bank and the remainder to Reserve banks in the west and south whose demands were mainly from the agricultural districts. The Federal Reserve Bank of Cleveland, which includes in its territory western Pennsylvania as well as the great industrial state of Ohio, has been lending more credit to the Reserve banks in agricultural districts than to the member banks of its own district.

The statements of condition of national banks, on September 8, as summarized by the Comptroller of the Currency, shows that the national banks of New York City had lost \$486,162,000 in deposits since June 30, last, which was largely accounted for by the withdrawal of funds by the interior. These facts all go to show that the whole country has been straining itself and denying credit for other purposes to provide for the agricultural districts. They furnish a sufficient answer to the malevolent charges that the bankers and business interests of the cities are either conspiring against the farmers or indifferent to their situation.

A statement of the amount of credit absorbed by the State of Iowa in the last year would not be complete without knowledge of the increase of mortgage indebtedness, which is said by well-informed observers to have been considerable. It would be also necessary to know the increase in bank loans within the State. The facts brought out at the conferences showed that loans had been increasing while deposits were decreasing, which indicated that the State was borrowing and drawing on bank deposits to pay for current purchases outside.

Lessons of a Boom Period.

A postmortem examination of a boom period is never pleasant reading, and the lessons which may be learned are seldom readily accepted by the parties most interested. The conditions in all such periods are singularly alike. It cannot be said that this great increase of indebtedness has been forced upon the people of Iowa by hard times, for recent years have been unusually prosperous ones. The Department of Agriculture at Washington has reported, on the strength of an extended inquiry, that the average value of the farming lands of the state increased \$63 per acre between March 1, 1919, and March 1, 1920. The tight money situation has not been worse in Iowa than in other states because the people of Iowa have been passing through harder times, but rather because they were more under the spell of prosperity, or the appearance of prosperity. Of course their lands did not actually increase in value \$63 per acre in one year, but they thought so, and thought they were entitled to use a correspondingly larger amount of credit.

The people of Iowa subscribed liberally to the Liberty and Victory loans, and undoubtedly borrowed for that purpose, but these loans were floated before July 1, 1919, at which date the Iowa borrowings of the Federal Reserve Bank were only \$12,000,000. It was not the war borrowing that put them in their present situation.

This chapter from the experience of Iowa is just like the stories of the boom experiences of all other peoples. If any one had been able to foretell in 1914 the sums which the people of Cuba would receive for their sugar crops in the following five years, and if he had not known history or human nature, he might easily have said that everybody in Cuba would get out of debt, and live on Easy Street ever after. But the people of Cuba are living under a moratorium today, proclaimed for the purpose of preventing a general collapse of the credit structure.

The Causes of Tight Money.

At the first of these Iowa conferences Mr. L. A. Andrews, president of the Iowa Bankers' Association, upon opening the meeting delivered a carefully prepared and able address, in which he described some of the causes for the great increase of bank loans as follows:

> Two causes particularly are responsible for the over-extension of credit in Iowa at this time.
>
> First, is the fever of speculation and reckless buying that has been prevalent all over the country and nowhere more than in Iowa. With a record of two hundred millions of almost worthless stock sold in Iowa in two years with hundreds more millions spent in reckless land speculation, and hundreds more millions spent in senseless buying of autos and luxuries of all kinds is it any wonder that money is tight? It was great while it lasted, but the pay day is here.

Second, the war inflated prices to such an extent that the whole credit system was put on a false basis. Money was so easy that obligations were assumed without the usual care either on the part of borrower or banker. Extensive lines of long time paper were taken on, deposits increased rapidly, loans increased faster, instead of debts paid, new obligations were made, debt pyramided on debt, until an over-extension of credit resulted which will take months to clear away.

This statement and the foregoing figures are commended to the individuals who think that this tide of inflation should have been allowed to go on swelling indefinitely. Isn't the debt-paying job big enough as it is?

Relations Between the Banks and Farmers.

Mr. Andrews stated the relations existing between the banks and farmers of Iowa and described the situation as follows, in part:

We must not lose sight in our discussion that the interests of the bankers and farmers of Iowa are so nearly identical that anything that affects one, affects both, for the very good reason that in a large per cent of the banks of Iowa, the farmer is the principal stockholder and the largest depositor.

In this greatest of agricultural states, all business is dependent on the prosperity of the farmer. In fact, his prosperity is the prosperity of Iowa, and whatever effects the well being and solvency of Iowa, should receive the careful thought of all and the hearty cooperation of every interest.

The bankers of Iowa wish to meet the farmers of this state on this common ground of co-operation, telling each other their troubles and believing that the hearty good feeling that has always been manifested in the past will continue and that these discussions will not be fruitless of results.

Let us consider these problems first by getting down to the true conditions affecting farmers and bankers. It has been said by some irresponsible, misinformed persons that the farmers of Iowa were not receiving the credit they should from Iowa banks. The banks of Iowa have practically only one customer, the Iowa farmer. In a large measure, he owns the banks, the deposits of the banks are made up principally of his money; he has through wise legislation safeguarded the business of banking in this state by strict laws, both national and state.

The bankers receive deposits as trust funds, payable mostly on demand, to the man who puts the money in the bank. The bank cannot create credit. Its customers determine its credit strength. The bank can only loan what is deposited with it, regarding these sums always as trust funds and knowing that they are payable on demand at any time the customer wants his money. The banker has sacred obligations to meet every day and his loans must be kept in such condition that he can meet them.

The last published statement of Iowa banks shows that these banks had loaned out to the farmers of Iowa, not only the legal percentage of these deposits, but also their capital and surplus profits, and beside all this, they have borrowed and reloaned many millions of dollars, the Federal Reserve Bank of Chicago alone showing that Iowa banks have borrowed over twice what they are entitled to under the basic rule.

The report of the superintendent of banks of Iowa shows that the loans of Iowa state and savings banks have increased $72,600,000 during the past year, that their bills payable have increased $20,000,000. It also shows that in the last three months their deposits have decreased $16,200,000.

With these facts before one, can any sane man say that the Iowa banks are not taking care of the Iowa farmers?

Deposits in Iowa banks have been declining in the last three months. Every time a deposit is checked out by a farmer from his bank, he weakens just that much the credit structure that Iowa farmers need now more than ever before.

Iowa banks have renewed millions of dollars of loans which have become due the last few months, because they did not wish to force payment and cause their customers a loss. But in this regard, all should remember that the individual has just the same obligation to pay his debts as the bank has to pay its deposits and all contracts of this nature should be lived up to as nearly as possible.

Iowa banks have taken care of their customers. They have borrowed to loan more money and have borrowed again to pay depositors instead of calling loans and making the Iowa farmer pay his debts. Why is money tight in Iowa? Because the Iowa farmer does not pay his loans. That is the only reason.

Having established the fact that the Iowa banker has gone the limit in financing the Iowa farmer, let us look on the other side and see what this deflation of prices has done to the farming interests. By the providence of God, Iowa farmers produced this year the greatest crops ever known. Wresting the crown from Illnois, Iowa has produced more corn than was ever grown by one state before. The richest agricultural tract of land in the world of its size, has broken its own record of past years, all at highest production costs. What is the situation? Prices on farm products have been beaten down and down until many are less than half what they were July 1. The most serious economic situation in its history has developed in Iowa. Her chief industry has been dealt an awful blow and all business interests must co-operate to aid in solving the grave situation.

* * * * *

While it is a fact that prices are down, that credit is strained and the whole industrial fabric much weakened, still here in Iowa we have no cause for alarm. We have immense crops which the world must use sooner or later at fair prices, and the right spirit of co-operation will bring out everything all right without serious trouble.

Conferences Helpful.

The views expressed on all sides were generally constructive and reasonable. The farmers agreed that the crops should be moved gradually, to meet consumption requirements and with proper regard for the banking situation, and on the other hand the bankers agreed that all interests would be best served by a moderate movement which did not over-burden the markets under the existing unfavorable conditions.

It was a fine idea to have these conferences. They illustrate the manner in which all emergencies affecting the welfare of large numbers of people should be met. Unquestionably they will exert a good influence not only within the borders of Iowa but outside, and not only among farmers and bankers but among other people who are thinking that their own troubles are the only ones. The counsellors and leaders of labor, who want to know what is the matter with the markets for labor products, why industries are shutting down, and what is their own proper part in this situation, will get light on the subject by reading the reports of these conferences.

Cattle-Growing Interests.

The cattle-growing interests of the West have had much to contend with in the last few years. First, there was a prolonged drought in Texas which compelled the sacrifice of

many herds, and then came a drought in the Northwest, followed by a very severe winter on the range, in which many head were lost and which entailed very heavy expenses for feed or the movement of animals to other states. The winter also entailed heavy losses upon the sheep-growers and inability to sell their wool this year has increased their burdens and those of the banks in the range country.

During the war the price of cattle rose with other prices, there was an increased demand for loans upon cattle security, and cattle-loan companies expanded their operations, selling much paper over the country through brokers, as is customary with commercial paper. Such paper is not supposed to be renewable. What gives commercial paper a wide market is the assurance that it will be paid when and where it falls due, without request for renewal. It is supposed to represent commodities which will be sold before the paper matures and thus provide the funds for payment. Take away this assurance, and the market for any maker's paper will quickly disappear.

Too much cattle paper was put out which did not have this quality; in some instances it represented stock cattle, which the owners did not intend or desire to sell. This class of paper hurt the reputation of cattle paper as a class. As the money market tightened it became difficult to float fresh paper on the market, and the makers had to fall back on the banks where they had permanent relations, for the means to take up their maturing obligations. These banks were already heavily loaned, and could not assume the additional burden. Cattle were forced on the market, prices were depressed and heavy losses sustained. Furthermore, the cattle industry was becoming demoralized and cattle supplies in the future threatened, as stock cattle, immature, half-fat, animals and calves were sent to slaughter. A great corn crop was shrinking in value because of the poor outlook for fattening operations.

In view of this situation the initiative was taken by Chicago bankers in organizing a corporation which is to handle a fund to be used where necessary to protect and stabilize the situation. Some $22,000,000 has been subscribed by banks of Chicago, New York and Boston. The plan does not contemplate a permanent organization, but simply one to deal with the present emergency.

The Controlling Influence.

We are in receipt of a letter from Professor C. W. Askling, a lecturer in a technical school at Norrkoping, Sweden, and a consulting engineer, who has the following comment upon the world situation, quite applicable here:

I am in receipt of your letter of the 29th Sept. and your Monthly Bank Letters for September and October. Please accept my sincere thanks for your courtesy.

From the two copies received I find that your views are rather optimistic. These may be well founded for the United States, but according to my opinion there will, for a long period, be hard times for Europe. One of the greatest dangers is the general ignorance of economic laws, but the excellent way in which you are instructing the public in your country cannot certainly fail to bear good fruit. As for great parts of Europe, some lines by Herbert Spencer of 1895 will unfortunately hold true for several years to come: "Under your present condition men could not be got to listen. Even if they listened they would not be convinced. And even if they were convinced, their conduct would not be appreciably affected. When men are under the influence of pronounced feelings no amount of reason changes their behavior. . . . Feelings, not ideas, determine social results. Everything depends, not upon intellect, but upon character and character is not to be changed in a day or in a generation."

The Bond Market.

In the face of heavy liquidation in practically all markets within the past few weeks, the behavior of high grade bonds has been nothing short of remarkable. The active demand for bonds which had manifested itself throughout the month of October continued practically unabated up to the very beginning of November when the recent wave of selling of stocks first made itself felt on the Exchange. This wave grew to larger proportions than generally had been anticipated and swept many "market leaders" to distinct low levels of the year.

The average price of forty representative bonds declined only 2¼ points within the three weeks period ending November 20th. During the same time twenty-five industrial stocks lost over 15 points. Twenty-five railroad stocks declined about 4 points. This record in itself would seem to be a fair indication of the latent demand for bonds and the present inherent strength of the bond market.

Railroad Bonds.

In the latter part of October a public offering was made of $8,107,000 Illinois Central Railroad Company five to fifteen-year 7% Equipment Trust Certificates, at various prices to yield from 6.75 to 6.60%. New railroad issues were conspicuous for their absence during November until the 20th of the month, when $4,500,000 Chesapeake & Ohio Railway Company four to fifteen-year 6½% Equipment Trust Certificates were offered at prices to yield from 6.85 to 6.70%. About a week later $25,000,000 Canadian Northern Railway (Canadian National Railways System) 20-year 7% Sinking Fund Debenture Bonds, due December 1, 1940, were offered at 100 and interest. All of the above issues were quickly absorbed.

Industrial Bonds.

Prominent among industrial financing of the month was the offering of $27,500,000 General Electric Company stock at par. A few weeks earlier an issue of $30,000,000 Westing-

house Electric and Manufacturing Company 7 per cent Gold Bonds, maturing May 1, 1931, was heavily oversubscribed at the offering price of 94¾ and interest, to yield about 7¼ per cent. Other new financing by well-known industrial corporations included:

$10,000,000	National Leather Company Five-Year 8 per cent Notes at par and interest.
6,000,000	Diamond Match Company Fifteen-Year 7½ per cent Debentures at par and interest.
4,450,000	Galena Signal Oil Company 7 per cent Convertible Debenture Bonds, due April 1, 1930, at 93½ and interest, to yield about 8 per cent.
12,000,000	Aluminum Company of America Five-Year 7 per cent Gold Notes at 97½ and interest, to yield about 7.60 per cent.

Municipal Bonds.

There was a substantial increase in the volume of new municipal financing during the last two weeks of October. The demand during the whole month was strong and bonds proved attractive at considerably higher price levels which have since been well maintained. $9,650,000 Miami Conservancy District, Ohio 5½s, due serially from 1925 to 1949, were quickly taken at prices to yield 5.60 per cent on maturities 1925 to 1930, 5.50 per cent on 1931 to 1935 maturities and 5.40 per cent on the long term bonds.

United States Government Bonds.

The new offering of $200,000,000 U. S. Certificates of Indebtedness dated November 15th, maturing May 16th, 1921, and bearing 5¾ per cent interest, was substantially over-subscribed. The proceeds from the sale of the major portion of these certificates was used to refund $102,863,000 of 5½ per cent certificates which matured November 15th.

Prices for Federal Farm Loan 5's have continued upward. Nevertheless, general liquidation, and selling to establish losses for tax purposes, have resulted in somewhat lower prices for Liberty Bond issues in spite of the operation of the 2½ per cent sinking fund purchases.

THE NATIONAL CITY BANK OF NEW YORK

CAPITAL, SURPLUS and UNDIVIDED PROFITS $106,045,328.87

Head Office
55 Wall Street
New York

THE NATIONAL CITY BANK
OF NEW YORK
AND BRANCHES

Condensed Statement of Condition as of November 15, 1920

ASSETS

CASH on Hand, in Federal Reserve Bank, due from Banks, Bankers and U. S. Treasurer	$272,842,939.96	
Acceptances of Other Banks	8,492,456.61	$281,335,396.57
Loans and Discounts	626,571,419.03	
United States Bonds, other Bonds and Securities	36,970,918.09	
Stock in Federal Reserve Bank	2,550,000.00	666,092,337.12
Banking House		5,000,000.00
Due from Branches		12,439,742.85
Customers' Liability Account of Acceptances		66,958,156.75
Other Assets		4,245,626.95
		$1,036,071,260.24

LIABILITIES

Capital, Surplus and Undivided Profits	$106,045,328.87
Deposits	700,102,086.74
Reserved for Taxes and Interest Accrued	4,777,131.86
Unearned Discount	3,581,654.64
Circulation	1,431,942.50
Due to Federal Reserve Bank	123,818,367.47
Other Bank Acceptances and Foreign Bills sold with our Endorsement	21,091,185.78
Acceptances, Cash Letters of Credit and Travelers' Checks	70,757,148.34
Bonds Borrowed	2,228,000.00
Other Liabilities	2,238,414.04
	$1,036,071,260.24

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